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GENERAL AGREEMENT ON TARIFFS AND TRADE

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17 June 1986

MINUTES OF MEETING
Held in the Centre William Rappard on 17 June 1986

Chairman: Mr. K. Park (Korea)

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

The Chairman noted that this was the eleventh in a series of special Council meetings arising out of the decisions resulting from the Tokyo Round (BISD 26S/210) and of the 1982 Ministerial Declaration (BISD 29S/9). At its special meeting in July 1983, the Council had agreed that the meetings should, in addition, monitor paragraph 7(i) of the Ministerial Declaration; the Council had also agreed that the special meetings would in future preferably be held twice each year.

He drew attention to the Secretariat note on "Developments in the Trading System, October 1985-March 1986" (C/W/494 and Corr.1). He noted that the Secretariat had had to rely partly, as before, on unofficial information, since official notifications had been insufficient to provide the basis for a well structured and informed review. He emphasized that the basic purpose of these meetings was not to perfect the Secretariat note (which would be revised and issued for future reference after the present meeting[1]), but to help the Council monitor implementation of paragraph 7(i) of the Ministerial Declaration, and to engage in a substantive review of recent developments in the trading system.

In preparing for this meeting, he had informally asked a number of delegations to share their views on how to improve GATT's existing notification and surveillance mechanism. It had been remarked that the Secretariat's documentation should be considered as no more than a very useful, and inevitably imperfect, point of reference on which to base real debate on concrete issues and policy measures affecting rights and obligations under the General Agreement. Delegations should therefore not feel limited to discussing the specific issues or facts mentioned in the Secretariat documentation. He noted that there were ongoing discussions on improvement of GATT's surveillance mechanism, including suggestions for country reviews, which would require further consideration. He felt, as he knew did many delegations, that the

[1] Issued subsequently in the L/ series.

special Council meetings risked being a waste of time unless they focused on specific measures and developments affecting the functioning of the GATT trading system, which required consideration and follow-up by the CONTRACTING PARTIES.

Many representatives expressed appreciation for C/W/494 and said it represented consistent improvement in documentation for the special Council meetings. The Secretariat was encouraged to improve the documentation still further.

The representative of the European Communities recalled statements at previous special Councils that the CONTRACTING PARTIES had at their disposal, in the special Council, a surveillance mechanism which could be used as required. They had not used the full potential of this mechanism, which could play a regulatory rather than judicial rôle in monitoring trade policies and in making a collective assessment of the functioning of the multilateral trading system. As long as the existing machinery provided by the Council had not been put to its full use, the Community and its member States would be reluctant to participate in setting up additional surveillance mechanisms. The Community had been disappointed and frustrated at the slow progress towards carrying out a collective assessment, which should be the linchpin of the surveillance system. One could also discuss the advantages and disadvantages of country-by-country reviews so as to determine carefully whether these would be demonstrably useful. Referring to paragraph 12 of C/W/494, he said that one of the main issues in the new round of multilateral trade negotiations would be how to deal realistically with "grey area" measures; this would mean neither legitimizing them nor necessarily declaring them outside the law. The challenges at the root of those "grey area" measures would have to be identified and met. Turning to regional arrangements (paragraph 14), he said that the Community had been subject to permanent skirmishes, both in GATT and elsewhere, in trying to reach its great and ambitious goal of integration. He emphasized the political context of the Community's enlargement. Technical institutions such as GATT would not survive if they worked against the facts of political evolution. If Europe were once again to be riven by ancestral conflicts, no country would benefit, least of all the United States, which had given such massive help to Europe's unification. The Community's integration would only be preserved if economic support for it was maintained. As an example of how necessary it was to bear in mind the political background to economic facts, he referred to paragraph 47, where the Secretariat had correctly noted that Spain had instituted the Community's variable levy system for maize and sorghum, thereby withdrawing its bound tariff of 20 per cent. The United States, however, had given a different version of these facts in C/W/494/Corr.1. The reality of the situation was not as simple as either the Secretariat or the US version indicated; this was an example of how facts, referred to without adequate explanation, could be misinterpreted and create the conditions for a trade war.

He explained that Spain, ever since 1963, while binding its duty at 20 per cent, had imposed a regulatory tax system for cereals and other products which amounted to a variable levy. The overall effect of that system had sometimes been less, sometimes equal and only very rarely higher than the 20 per cent bound duty. His delegation would admit that as far as maize and sorghum were concerned, it was likely that the effects of the variable levy applied by Spain since 1 March 1986 would be greater than the 20 per cent bound duty, but the impact on imports was less easy to judge since there had been a substantial volume of pre-emptive imports. In any case, there was a suitable mechanism in GATT for settling differences on such matters. This was an example of the multiplicity of skirmishes and harassment against the Community which might exacerbate existing tendencies to re-nationalize policies and reverse the trend towards European integration. The Community had neither the desire nor the capacity to achieve international hegemony, but rather to serve as a balancing factor in the world economy, and in GATT in particular, as well as provide a safety valve with its huge market of 12 countries. The United States had always understood this, and the Community was confident that transitory difficulties between itself and the United States, such as those which had arisen over maize and sorghum, would not endanger international trade. China, also, had clearly understood and supported from the beginning the political importance and the beneficial, stabilizing effect of Europe's integration. This was why the Community had responded by supporting China for membership of the MFA and as a participant in the new round, and also why it supported China's return to GATT as a contracting party. Turning to agriculture, he said the Community accepted the comments in paragraph 15, although one should not have singled out the Commission as an entity since that body simply represented the Community. As for textiles (paragraph 16), there was a risk that by focusing exaggeratedly on the MFA and its history, one could lose sight of what was at stake, i.e., the effort to return textiles to equitable GATT disciplines, even if this could not be done overnight. Finally, turning to paragraph 17, he said this should have referred to the problems of all debtor countries, whatever their level of development.

The representative of Jamaica said that perhaps there had been too much emphasis in GATT on market size, at the expense of respect for GATT rules and principles. However, C/W/494 served a useful purpose in reflecting trade measures taken by smaller contracting parties to make their policies conform with those principles and rules.

The representative of New Zealand noted that C/W/494 included references to trade liberalization decisions taken by his Government. His delegation would circulate a document detailing the measures. This was the most comprehensive and rapid change in border protection ever undertaken by New Zealand. The aim was to encourage new investment and the reallocation of existing resources to more efficient industries. New Zealand considered that the measures constituted a concrete

contribution to standstill and rollback. He then outlined the decisions covering tariffs, import licensing and agricultural products, adding that these liberalization measures would provide significant opportunities for his country's trading partners, among which were some developing countries in the region for whom New Zealand was a small but important market.

The representative of Egypt said that his delegation had no information enabling it to confirm paragraphs 174, 175 and 287 concerning his country; he might eventually ask for corrections to be made. He appreciated that the Secretariat had to rely to some extent on unofficial information, but felt that there was still room for more precision.

The representative of Korea noted (paragraph 9) that a number of countries, including developing countries, had liberalized trade by deciding autonomously to open their markets. As indicated in paragraph 176, Korea was one of those countries. Referring to paragraph 12, Korea considered that "grey-area" measures, whether inter-governmental or inter-industry, were basically unequal arrangements. Over recent years, more and more sectors appeared to have come under voluntary and involuntary quotas as well as intra-industry association agreements, as a way of avoiding GATT rules. Korea urged those importing countries imposing "grey-area" measures to reconsider both existing and envisaged measures of this kind, and to work out tangible ways of contributing to the progress of the upcoming new round.

The representative of Canada said the developed countries could make an important contribution by maintaining stable and sustainable growth and by working to improve the trading environment. Unfortunately, with the slower economic performance in 1985, protectionist pressures continued to exist. For example, the US House of Representatives had passed the Trade and International Economic Policy Reform Bill of 1986. Certain parts of this Bill, which had not yet become law, were protectionist and inconsistent with the international obligations of the United States, and would adversely affect Canadian trade interests. Canada was particularly concerned over provisions in the Bill concerning natural-resource pricing, mandatory retaliation (in certain circumstances) under section 301 of the Trade Act of 1974, fundamental changes to US anti-dumping and countervailing duty laws, and various proposed amendments to the US tariff schedule. Canada appreciated the US Administration's strong opposition to the protectionist provisions in the Bill and urged that this opposition be continued. His delegation had cited this particular example because of the importance of Canada's bilateral trade with the United States and because of the importance of the US market to overall economic stability and growth. However, all governments were facing protectionist pressures, and it was necessary for all of them to reinforce their efforts to resist those pressures. Furthermore, a commitment to standstill and rollback by all contracting parties, in conjunction with

launching the new round, would complement favourable trends in the world economy and enable all contracting parties to benefit from improved economic prospects. Launching the new round in September 1986 would provide a strong, positive signal to the world that action was being taken to deal with the major problems affecting the international trading system.

The representative of Japan said his delegation shared the Secretariat's view in C/W/494 (paragraph 5) that there had been encouraging developments in the world economy during the period under review, such as lower interest rates, reduced inflation and falling oil prices. In Japan's view, the appreciation of the yen had been too great and too fast; some stabilization was now needed. Similarly, too abrupt a decline in oil prices might be detrimental to supplies in the long term. The most noteworthy development in international trade was the advancement of preparatory work for the new round. The world was waiting for an early start to the negotiations, and Japan considered it imperative that the new round be launched at Punta del Este in September. The negotiations would play a vital rôle in containing protectionist pressures, achieving greater liberalization and strengthening the GATT multilateral trading system. Regarding paragraph 8, Japan believed that the underlying factors behind the strong protectionist pressures were both macro-economic and structural. Macro-economic problems included the misalignment of exchange rates and differences in cyclical patterns among the industrial countries. An equally important factor was the ability of various economies to respond to the changing environment, and this had been adversely affected by rigidities in economic structures and by delay in adjustment. Referring to the "grey area" measures taken outside GATT (paragraph 12), he said that many countries, including Japan, had been under strong pressure to circumvent the multilateral approach through bilateral arrangements. The CONTRACTING PARTIES had to work out ways of bringing measures such as voluntary export arrangements under GATT disciplines and of phasing them out. Japan was also concerned at regional arrangements, which had an increasing weight in international trade (paragraph 14). His country welcomed a strong Europe for both economic and political reasons, but wanted to see Europe open to the outside world; Japan was especially concerned that enlargement of the Community had not brought about elimination of discriminatory quantitative restrictions administered by Portugal and Spain. Paragraph 9 had recorded Japan's successful resistance to protectionist pressures and its autonomous measures to improve access to its market. Japan considered that these measures were better taken sooner rather than later, and saw them as an advance contribution to the new round. His delegation attached great importance to the rôle of the special Council meetings for effective surveillance not only of paragraph 7(i) of the Ministerial Declaration, but also of contracting parties' trade policies. The existing surveillance mechanism had not been truly effective. Surveillance by the various GATT bodies had been neither regular, nor systematic and well coordinated; the rôle of the

Secretariat had been limited; and the results of the surveillance had not been systematically made public. Serious efforts should be made to work out an effective surveillance mechanism, and particularly to reinforce the effective functioning of the special Council meetings. The new round would provide a good opportunity to conduct such an overhaul, and Japan was ready to explore various ideas for improving the surveillance mechanism.

The representative of Hong Kong, referring to paragraph 12, recalled that in 1983 his delegation had estimated that "grey area" measures amounted to no more than one per cent of total world imports (SR.39/1, page 14). It would be useful if the Secretariat could make an updated assessment based on available data. Hong Kong continued to share the view that such measures should be eliminated.

The representative of Australia drew attention to document L/6005 notifying the withdrawal of his country's reservation to its acceptance of the Protocol introducing Part IV (BISD 13S/2). He recalled that in 1965, when the Declaration on implementation of Part IV had been adopted, Australia had considered that the distinction drawn between developed and less-developed countries was oversimplified. The distinction had not reflected Australia's perception then that it was neither a less-developed nor an industrialized country as its manufacturing sector was still in a state of development. However, Australia now considered itself a developed economy and had adopted a policy of progressively exposing its manufacturing sector to the efficiencies of the international marketplace. He emphasized that the reservation on Part IV had not in practice prevented his country from introducing measures to benefit the trade of developing countries. In 1965, Australia had been the first country to grant non-reciprocal preferential tariff treatment to developing nations; the scheme had been regularly revised to take account of those countries' interests. Substantial improvements would be incorporated in a new preferential system to be introduced on 1 July 1986, containing the principles of predictability and universal coverage. There would be no graduation at product or country level and no specific provision for review. These were points which had been pursued by developing countries in international fora. Australia had decided to withdraw the reservation on Part IV to obviate any perception that its participation in the new round of multilateral trade negotiations might in some way be inhibited. Turning to C/W/494, he noted that its overview section (paragraphs 5-17) provided scant ground for comfort on the eve of the new round. In particular, developments in world agricultural trade continued to illustrate the protectionist pressures at work and their harmful impact on the interests of all GATT members. The implementation of the US Food Security Act and the enlargement of the Community to include Portugal and Spain were two major developments highlighted in C/W/494 which had adversely affected world farm trade. No less critical for efficient agricultural producers such as his own country, which relied on farm products for 37 per cent of its exports, had been the lack of real

change in the destabilizing impact of the Community's Common Agricultural Policy and of barriers to farm imports maintained by Japan. The steady decline in Australia's terms of trade illustrated the effect on small countries of the lack of GATT disciplines on subsidies on agricultural products and on intervention in world agricultural trade. The terms of trade had gone against primary producers such as Australia, not because of changes in comparative advantage but largely because of an undisciplined internal and export subsidization of world agriculture. This situation demonstrated the critical importance of launching a new trade round in September 1986 with agriculture as a primary subject for discussion. Australia attached great importance to a process of surveillance, including that carried out by the special Council meetings. However, for that process to be successful it was essential that reporting of developments be objective and that the Secretariat comment on whether trade measures conformed with GATT principles and provisions. For example, his delegation considered it unwise to use the heading "grey area" for paragraph 12, which could imply some degree of legitimacy under GATT rules; Australia would have preferred the heading "other protective measures". Furthermore, paragraph 14 should have stated that the Community's enlargement had not been carried out in a manner consistent with the requirements of Article XXIV. The Secretariat should not be too concerned about causing discomfort to contracting parties. For example, paragraph 45 stated that the Community's agricultural Ministers had agreed in April 1986 "... to what amounts to a farm price freeze ...", and then had noted that the Community's package had included a devaluation in the "green rates". The Secretariat, in referring to the devaluation of the "green rates", had understood its significance in terms of the farm price freeze but had omitted spelling it out. The significance was that the change in the "green rates" had effectively led to a marginal increase in farm prices in the Community for the period under review. This point should have been expressed. Similarly, in paragraph 43, his delegation wondered why the Secretariat had included the quote from the Community's Green Paper in full at the end of the paragraph, which left an impression that reform of agricultural trade required that the Community's efforts to adapt to present market conditions should be equalled by its trading partners. The singling out of the Community's view on this matter created an unbalanced interpretation of the situation. Finally, he drew attention to Australia's proposals for strengthening the surveillance mechanism as contained in Prep.Com(86)W/37. Essentially, these proposals would establish within GATT a full function of review and analysis of the trading policies of contracting parties.

The representative of Singapore, said that while C/W/494 was a useful background document, tighter and more precise language could in some cases have been used. Paragraph 17 could imply that voluntary restraint arrangements and other trade restrictions had adverse effects on indebted countries only, whereas they harmed all countries, particularly the developing ones. Regarding the Generalized System of

Preferences (GSP), paragraphs 232-240 were a sad reflection of the times as the major donors had continued to make their schemes more restrictive. It was, however, a pleasant surprise to note that Australia's new scheme continued to apply to all countries and all products. That a relatively small developed country, in the face of domestic difficulties, could exercise such strength should be an example for all other developed countries to follow.

The representative of Finland, on behalf of the Nordic countries, said that contracting parties should make every effort to conduct trade policies based on structural adjustment that was not blocked by trade barriers and subsidies. Paragraph 12 of C/W/494 stated that there were now some 120 export restraint arrangements falling outside the GATT. This trend illustrated the erosion of the GATT system and should be reversed in the interests of all contracting parties. He noted that paragraph 65 said that "...shipments to the EEC with respect to volumes and prices are subject to a monitoring system". The Nordic countries wanted to make clear that such monitoring was entirely voluntary and not based on some sort of mutual understanding. There were no provisions for monitoring in the exchange of letters, nor any mention of quantitative restrictions or ceilings. He went on to say that the Nordic countries attached great importance to the functioning of the special Council meetings and had made suggestions in the past on how this could be improved. They remained open to proposals on how the Council might make a collective assessment of trade policy measures. Such assessments would not only lead to increased transparency and understanding of trade measures but would also help governments resist protectionist pressures and conduct more liberal trade policies. The ideas put forward on this subject by the European Communities at the present meeting were worth exploring in more detail, perhaps in informal consultations conducted by the Chairman. He concluded by saying that the Nordic countries attached great importance to launching the new round in September 1986, and that such a decision should be accompanied by a firm standstill commitment.

The representative of Hungary said his delegation shared Australia's views on agriculture (paragraph 15). Hungary, as a small country, was harmed by competitive subsidization of farm exports; its entire State budget amounted to less than the amount spent by the Community on export subsidies for some temperate zone agricultural products. This posed a certain limitation, to say the very least, on Hungary's ability to take part in the subsidy competition on equitable terms. His delegation had been interested to hear the representative of the European Communities speak about the need to put an end to ancestral European confrontations. Hungary, as a European country, wanted to take part in seeing such great political desires translated into specific trade liberalizing measures within GATT. Paragraph 276 of C/W/494 noted that as from 1 January 1986 France had liberalized certain quantitative restrictions; however, in the case of four products, Hungary had been excluded. A similar measure had been taken by another of the

Community's member States (L/5870/Add.2). Hungary regretted the method of such liberalization measures, considering that it was contrary to the basic rules and principles of the General Agreement and of Hungary's Protocol of Accession, and also went against the recommendations of the Group on Quantitative Restrictions and Other Non-Tariff Measures.

The representative of Yugoslavia said her delegation was interested to have information on the relevance for contracting parties of the various trade measures described in C/W/494. For example, she asked for clarification on paragraph 189 concerning Swiss revenue duties on heating oil, gas and other hydrocarbon fuels.

The representative of India said that C/W/494 did not reveal greater commitment by contracting parties to the standstill and rollback undertakings of the 1982 Ministerial Declaration. This was important to bear in mind while the contracting parties were intensifying preparations for another Ministerial meeting to launch a new round. Turning to specific points in C/W/494, he said India was concerned and alarmed at parts of the US Food Security Act (paragraphs 40 and 41), particularly those dealing with rice and cotton, for which US exporters would be given subsidies to enable them to match world prices. His delegation commended the Secretariat for having described the situation regarding textiles and clothing (paragraphs 16 and 115) so succinctly, including the aspirations of developing-country exporters in this sector. India agreed with Australia regarding the use of the term "grey area" as the heading to paragraph 12; he welcomed that country's withdrawal of its reservation on Part IV (L/6005). Regarding paragraph 316, his authorities were concerned at the increased automaticity of recourse to countervailing duty and anti-dumping actions; this was a source of trade harassment which particularly harmed new entrants and those countries with small market shares. India continued to support strengthening GATT's surveillance system, especially with regard to monitoring the commitments in paragraph 7(i) and the observance of the principles and rules of the General Agreement.

The representative of Sri Lanka noted that expressions of support for a more open multilateral trading system had been made at various intergovernmental meetings, but a noticeable gap remained between such declarations and actual performance, as C/W/494 clearly illustrated. In the area of textiles trade for example, there was now an opportunity to begin long overdue liberalization. A successful conclusion to the present negotiations over the future of the MFA would contribute positively to successful launching of the new round. Even though there was broad agreement that the GSP had played a positive rôle as a trade instrument in improving market access for developing country exports, recent attempts to improve the schemes had been at best modest. Any benefits in new schemes had remained concentrated at the top end of the scale and there was a need for wider distribution of the benefits to the smaller and least-developed countries. Sri Lanka welcomed Australia's new GSP scheme, which was more transparent and simple to administer than the previous one; however, its trade effects had been considerably reduced.

The representative of Thailand associated her delegation with the concerns expressed by Australia on agricultural trade (paragraph 15). Domestic measures taken by a number of developed countries to bolster price and income support for producers of grain, livestock, sugar and rice had brought about over-production and market protection. The use of production and export subsidies by many of these countries was distorting international trade flows and harming the economies of many efficient agricultural producing nations. Agriculture should be a priority issue in the new round, and Thailand believed that better principles governing trade in agriculture would evolve as a result of those negotiations.

The representative of the United States said that his country continued to be one of the strongest supporters of the political and economic integration of the European Communities. However, sometimes it was hard to divorce political assessment from the economic impact of specific events. It was difficult for his delegation to accept, for example, that problems over corn and sorghum, which accounted for hundreds of millions of dollars worth of trade annually, could be dismissed as normal. Politically, this was hard to explain to US farmers. He hoped that the tensions over this problem would be overcome so that they would not jeopardize relations between the United States and the Community on a wider scale. There was no doubt that protectionism was rampant throughout the world trading system. Nevertheless, he objected when the United States was pointed to as being more protectionist than others, given the fact that over the past year it had imported US$150 billion worth of goods more than it had exported. A major aim of the new round would be to reduce protectionism. He was pleased that the representatives of Australia and Thailand shared the US determination to try to bring agriculture into a situation where market forces could have significant impact. The United States had a keen desire to avoid farm subsidies which cost taxpayers so heavily. Regarding the comments on US anti-dumping measures, he would like to see as much concentration on the problem of dumping itself. The United States hoped that the Secretariat's documentation for the special Council meetings would continue to improve to a point at which it could be published.

The representative of Switzerland, replying to the request by Yugoslavia, said his delegation would soon be able to announce that the measure referred to in paragraph 189 had been abolished. He added that Switzerland attached great importance to efficient surveillance in GATT, and considered that the best place to negotiate improvements would be in the new round.

The representative of Brazil said that C/W/494 provided a good basis for analysis of developments in the period under review. While there had been some encouraging events, protectionist pressures to restrict products from heavily indebted countries had continued

unabated, thus adding to their difficulties. He drew attention to paragraph 135 regarding the major trading partners' increasingly restrictive application of the GSP and described measures under the schemes of the European Communities and the United States which jeopardized developing countries' efforts to expand and diversify their exports to developed countries. He also pointed to the increase in the number of anti-dumping and countervailing duty investigations initiated during the period covered, particularly involving iron and steel and other products from developing countries (paragraph 316). Such developments could have disruptive effects on the export sector of those countries.

The representative of Colombia drew attention to paragraphs 250 and 260 regarding efforts by his country to liberalize trade. He pointed out that application of the measure described in paragraph 198 had been suspended.

The representative of Uruguay said his delegation was willing to work actively to find solutions to the serious and urgent problems described in C/W/494. He supported Australia's statement on agriculture and Sri Lanka's on textiles. Regarding the information on Uruguay's bilateral agreements included in Appendix IV of the document, he pointed out that the lists of products were indicative only and did not reflect completed commercial transactions. Uruguay welcomed Australia's decision to withdraw its reservation regarding Part IV of the General Agreement.

The representative of Australia said that Sri Lanka's reference to the trade effects of Australia's changes in its tariff preferences was based on an inaccurate UNCTAD assessment of those effects. His authorities had questioned the basis of the UNCTAD analysis and were awaiting an explanation by that body. The intent of the new scheme was to provide a clear margin of preference for developing countries' products.

The representative of Nigeria said that his country had been forced to take the measures described in paragraphs 303 and 304, among others, to salvage its economy in the face of a disastrous fall in the price of one of its main exports. This had been due partly to the imbalances, inequities and malpractices in the international trading system; he added that this emphasized the importance of the link between trade, finance and development, and the difficulty of making the right policy choices. Nigeria hoped that the international trading situation would improve and that the policies and developments which had led to the situation Nigeria currently faced would not arise in future.

The representative of Pakistan said that C/W/494 allowed delegations to focus attention on developments in areas that affected a large number of contracting parties' trade interests, including those of developing countries. Textiles and agriculture were two sectors of particular interest to Pakistan. He associated his delegation with

Australia's statement regarding agriculture and noted with concern the information in paragraphs 40 and 41 of the Secretariat document, particularly with regard to rice and cotton. His delegation shared the hope (paragraph 16) that the results of negotiations on the future régime for textiles and clothing would contribute to the successful launching of the new round.

The representative of the United States referred to Brazil's statement regarding the increase in US anti-dumping and countervailing duty investigations and the changes in US GSP privileges involving Brazil; he noted that in 1985 the value of total trade between the United States and Brazil had been US$11 billion, 73 per cent of which was Brazilian exports to the United States. He hoped that Brazil's concerns would be looked at in the context of these trade statistics.

The representative of Brazil said that those statistics might be even more favourable to Brazil in a free-trade environment.

The Director-General referred to his periodic report on the Status of Work in Panels and Implementation of Panel Reports (C/139), and said that efforts were continuing to compose the Panel on Canadian provincial marketing agencies (page 2, paragraph 4). He noted that in three cases, the 30-day deadline for a panel to be composed had not been met. One was the Panel just mentioned, the second was the Panel on US restrictions on sugar-containing products, and the third was the Panel on US trade measures affecting Nicaragua. In the first two cases, negotiations on developments regarding the substance of the dispute had been the apparent reason for the delay; in the third case, consultations on the Panel's terms of reference and composition had been unusually complicated, but agreement had been reached and the Panel had begun its work. While he welcomed all efforts to resolve disputes through consultations, he emphasized that the panel procedure once launched should be carried out within the deadlines established by the 1979 Understanding.[1] He recalled that it had been recognized in the Preparatory Committee that the efficient functioning of the dispute settlement mechanism was crucial to the efficiency of the GATT system itself. While improvements in these procedures could always be considered, one immediate objective was to ensure the readiness of governments to comply with existing procedures.

The representative of Hong Kong referred to Section C of C/139 and said that in two of the four cases in which a panel report had been adopted, recommendations had not been implemented. As the Director-General had recalled, the dispute settlement mechanism had a decisive rôle to play in securing a proper balance of rights and obligations between contracting parties, and in particular to protect the rights of small or less developed contracting parties. That rôle

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[1] Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210).

might not -- or only partially -- have been fulfilled; the Panel report on French quantitative restrictions against Hong Kong was a case in point. France had introduced some measures towards compliance with the Panel's recommendations; the 1984 restrictions on quartz watches had been converted into an Article XIX action and had been duly applied on an m.f.n. basis. However, licensing problems had then arisen to which no solution had been found to date, and trade had declined. While France had relaxed some quantitative restrictions on products of little trade interest, restrictions and discrimination remained on products important to Hong Kong such as radios and toys. It would soon be three years since the Panel report had been adopted, and Hong Kong wanted to know if France was finally prepared to observe fully its GATT obligations and to terminate forthwith all remaining discriminatory quantitative restrictions which were the subject of that report.

The representative of Hungary reiterated his delegation's position that recommendations adopted by consensus in the Council should be complied with, even in cases involving a small trading country with a limited capacity to retaliate.

The representative of China, speaking as an observer, said that while there were a number of positive signs, developments in the trading system taken as a whole were far from encouraging. Protectionist pressures were increasing rather than abating; recourse to "grey area" measures continued as a means to settle trade problems; trade frictions had intensified in agriculture; and in textiles, which concerned developing countries the most, restrictions had expanded. Trade liberalization remained a major issue to be resolved by the international community, and China hoped that the new round of multilateral trade negotiations would strengthen and improve the trading system and would promote trade and economic development, particularly in the developing countries. Regarding developments in his country, he said China had continued its economic structural reform in 1985. The volume of foreign trade for the year had reached a record high of close to US$60 billion, but a big trade deficit had been registered, necessitating certain import restrictions which, however, had been imposed in accordance with GATT provisions. While China's modernization plans called for an increase in imports, the level of those imports would depend on export earnings. China would pursue its policy of opening to the outside world with the aim of achieving a new system combining a planned and market economy. Steps were being taken to strengthen the macro-economic control and management of China's foreign trade system, and the total volume of imports and exports for the next five years had been targeted to grow at an annual average rate of seven per cent, reaching US$83 billion by 1990. In order to execute those policies better and to expand further economic and trade relations with other countries, China had indicated its wish to resume its GATT membership; the steps required for this would be taken in due course. China also wanted to participate in the new round of negotiations and to attend the Ministerial meeting in September.

The Chairman, in concluding the discussion, said that suggestions to strengthen the surveillance function of the special Council meetings should be kept in mind in future deliberations. Also, the Secretariat document might be further improved to reflect in a more structured way the current operation of GATT provisions.

The Council agreed that the review of developments in the trading system had been conducted.

The Director-General said that he agreed with representatives who had referred, one after the other, to the need for effective, successful and constructive surveillance in GATT, but he considered that this went well beyond the Council's present practice of meeting twice yearly for a series of comments by representatives, interesting and informative though these might be. In his view, there was still a long way to go before concrete content was given to the notion of effective surveillance, so that the Council's discussion would have an impact on the reality of GATT's work. He considered that there would be such impact if the discussion of the document prepared by the Secretariat caused contracting parties to refrain from introducing or implementing measures which did not respect GATT rules. He invited representatives to reflect on how the type of discussion just ended might be improved to the point where a collective assessment, perhaps available to the public, could be made on trade policy trends and developments. This might one day even include an appeal by the CONTRACTING PARTIES addressed to particular contracting parties or groups of contracting parties to take or refrain from some type of specific or generalized trade policy action. He added that his comments were prompted by proposals under consideration in another GATT body, and that he wanted to ensure that discussions on how surveillance could be improved and made more effective did not take place without contracting parties asking themselves how to give more teeth to the Council's own surveillance exercise.

The representative of the European Communities said that the Secretariat document for the special Council meetings was particularly useful precisely because it was not intended for approval or adoption, but rather as a reference document. In future, it should reflect more fully the many successful actions by governments to resist protectionist pressures. An effective surveillance mechanism should be based on three elements: (1) transparency through improved Secretariat documentation, (2) further efforts by Geneva representatives to encourage their authorities to resist protectionist pressures, and (3) a collective assessment or appraisal of the situation by the Council.

The representative of Australia considered that the Secretariat should show more teeth in its assessment and not fail to comment on the GATT compatibility of actions taken, for example under Article XXIV. He welcomed the Community's suggestion that there should be a collective assessment; Australia's proposal on surveillance (PREP.COM(86)W/37) was for a system of judgement by peers. He said that while all information on the trade policies of the Community's member States was publicly available, the Community was not always willing to have those policies discussed in various GATT bodies.

The Council took note of the statements.