GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

C/M/210
13 July 1987

Limited Distribution

MINUTES OF MEETING

Held in the Centre William Rappard on 16 June 1987

Chairman: Mr. A. Oxley (Australia)

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 1986-March 1987" (C/W/517 and Add.1 and Corr.1), drawn on notifications by contracting parties and on other relevant information. The Secretariat had continued to rely partly on unofficial information, since official notifications had been inadequate to provide the basis for a well structured and informed review; when doing so, it had checked this unofficial information with the delegations concerned. The Secretariat had drawn up C/W/517 largely along the lines followed for the documents used at the past few special Council meetings. This had been done in recognition of ongoing discussions in the Uruguay Round on the future organization of the surveillance process in GATT and of experience gained from the operation of the Round's Surveillance Body.

He emphasized that the basic purpose of the special Council meetings was not to perfect the Secretariat's document, but to monitor implementation of paragraph 7(i) of the 1982 Ministerial Declaration, and to engage in a substantive review of recent developments in the trading system. Therefore, delegations should not feel limited to discussing the specific issues or facts mentioned in the document. The review should enable the Council to focus on those aspects of current developments in international trade policy that were of particular relevance to GATT's ongoing activities and the cooperation, or lack of it, by contracting parties in the trade field. Delegations might want to take account of the fact that certain specific actions might have been notified to the Uruguay Round Surveillance Body in terms of the standstill and rollback commitments. Nevertheless, this did not prevent representatives from raising matters in that body which they might want to raise at the present

meeting. While there might be areas of overlap, it was clear that there were separate and distinct terms of reference for the present activities of the Council in the area of surveillance, and the work of the Uruguay Round Surveillance Body. Representatives might also want to comment on how the special Council discussions could be made more effective and of greater practical relevance to the other work of GATT.

The majority of representatives expressed appreciation for C/W/517, and said it represented a further step in the consistent improvement of the Secretariat's documentation for these meetings. Some representatives pointed to several inaccuracies in the documentation and expressed the hope that further efforts would be made to ensure the accuracy of the information in the document, while acknowledging the difficulties faced by the Secretariat in gathering such information. A number of representatives drew attention to the potential for overlap of work by the special Council and by the Uruguay Round Surveillance Body, and to the need to examine this matter.

The representative of Japan said that for the period covered, the Secretariat's document seemed to present a picture of the trading system gloomier than reality, because it tended to give little credit to successful efforts to resist protectionist pressures. Nevertheless, Japan was very concerned that protectionist trends in major trading countries had been particularly prevalent during that period, and this against the background of continuing economic difficulties, including increased unemployment. Among such protectionist measures, he drew attention to the unilateral measure taken by the US Government regarding the Japan/US semi-conductor agreement, and the protectionist bills under consideration in the US Congress, as well as the proposed amendment to the European Economic Community's anti-dumping legislation. These measures and bills contained elements which violated or could violate GATT obligations and the commitments on standstill. Such protectionist trends would erode the GATT system from within and irreparably damage its credibility. Japan asked the parties concerned to make the utmost effort to resist protectionist pressures and to take steps to repeal the measures. Such action was particularly necessary in order to show strong political backing for the advancement of the Uruguay Round negotiations.

His Government had already implemented a series of economic measures to improve access to Japan's market. It had significantly improved its GSP scheme covering industrial and mining products and had reduced or eliminated tariffs on a wide range of products. The Emergency Economic Measures announced by Japan on 29 May 1987 included unprecedented budgetary measures exceeding US$43 billion to stimulate domestic demand, to rectify external imbalances and to facilitate more harmonious external economic relations, including financial recycling to the developing and debtor countries. Details of the measures were given in the Secretariat document. In concluding, he said that a more effective mechanism for the review and surveillance of contracting parties' trade policies was one of the priority tasks of the Uruguay Round and should be discussed in the relevant negotiating group.

The representative of Yugoslavia said that the Secretariat document gave a serious account of recent developments in the trading system, and that it pointed to the inter-relationship between trade measures and monetary and financial policies. The main impression the document gave was that despite the commitments undertaken at Punta del Este and the progress made in the initial phase of the Uruguay Round negotiations, the past six months had seen a rise in new protectionist measures, trade frictions and proposals for certain restrictive measures which not only impaired trade but further aggravated international economic problems. For the past several years, world trade growth had been minimal, and developing countries' share in it had been constantly declining, due to the increasingly limited access of their traditional exports to the major trading partners' markets, high foreign debt and sharply reduced capacity to import.

Contracting parties were expected to take action leading to trade liberalization; instead, the major trading partners were increasingly resorting to unilateral or bilateral measures which violated GATT or the spirit of the standstill commitment. The practice of export subsidization had continued and spread. In agriculture, market access restrictions had been intensified and import controls extended, some of which were discriminatory and inconsistent with GATT. Grey-area measures which contravened GATT provisions had continued and intensified, as emphasized in paragraph 17 of C/W/517. These measures particularly affected products in sectors of vital importance to developing contracting parties' exports and development. Exports in these sectors were also frequently subject to countervailing duty actions and anti-dumping measures for which the document showed a considerable increase (paragraph 16). Predominantly affected were products exported by small and medium-sized enterprises which, as a rule, were not adequately equipped to protect their rights in the complex administrative procedures of the investigating country.

His delegation attached great importance to the special Council meetings, which should improve multilateral surveillance of trade policies. That surveillance should not be confined to the presentation of views on different subjects or to a broad analysis of trends in the trading system; there was also need for a collective assessment that could be a basis for discussion on action to be taken to strengthen the GATT system and to pursue its objectives. In view of the interlinkage between trade, monetary, financial and commodity issues, special Council meetings could initiate action to resolve those inter-related problems. Due to developing countries' debt problems, this review of trade policies should, in Yugoslavia's view, focus more particularly on solutions to enable those countries to increase their export earnings and to prevent their export capacity from being damaged by the major trading partners' actions.

In concluding, he said that Yugoslavia fully agreed with the overview of developments (paragraphs 6-28) in the document. His delegation would appreciate, in future documents, an evaluation of the effects of current and previously announced liberalization programs and measures aimed at import-demand encouragement by some larger trading partners.

The representative of Australia welcomed the Secretariat's broad and detailed coverage of developments in the trading system contained in C/W/517. In his delegation's view, most of the important factors had been correctly identified, and he commented on how some of these had affected Australia's trading situation.

His country was going through a process of pronounced economic adjustment to adverse international economic developments. Its current account deficit had increased markedly, and its net foreign debt had continued to accumulate, thus increasing substantially its debt-servicing burden. In response to this adverse economic and trading environment, Australia had adopted an economic policy and measures designed to facilitate the restructuring of its industry in order to make it more competitive and export oriented. On the external front, Australia's trade policy had tried to achieve an improved international trading environment with liberalized market access, improved prices for its major exports and a reduction in the distortions which had increasingly afflicted the international trading system in recent years. Over the past four years, assistance for most major sectors of industry had been reviewed, and despite unemployment and balance-of-payments difficulties, levels of import protection had been consistently and unilaterally reduced. Two good examples of this were the comprehensive seven-year plan to restructure the textiles, clothing and footwear industries between 1989 and 1996, and the rationalization of tariffs for the chemicals and plastics industries (C/W/517, paragraphs 166-169 and 179 respectively).

In addition, Australia had been actively pursuing a trade policy aimed at bringing about adjustment and liberalization in the international trading system, and had actively supported and participated in the Uruguay Round negotiations. However, Australia was particularly concerned by some of the features and developments in the international trading environment in recent months, and supported the assessment in paragraph 9 that there had been a clear contrast between the progression of work in GATT, particularly regarding the Uruguay Round negotiating process, and the difficulties and tensions that had marked the actual conduct of trade policy.

Among the trends highlighted by the Secretariat was the growing concern over the US trade deficit and the protectionist moves this generated in the US Congress (paragraph 10). Australia was concerned with the overall protectionist tone of the proposed US trade legislation, particularly with its emphasis on bilateral solutions which threatened

Australia's export markets and undermined the global trading system. He said that specific provisions of the draft legislation relating to grains, lamb and sugar could be particularly damaging to Australia's trading interests. With respect to grains, funding for the US Export Enhancement Program would be expanded, resulting in the program becoming an across-the-board subsidy. For lamb, there were moves to incorporate a provision to include imports of lamb under the US Meat Import Law subject to a countercyclical formula similar in concept to that applied to beef. Regarding sugar, the legislation provided for the retrospective extension to 1977 of duty drawback on imports of cane sugar, whether raw, refined or in a product. Another proposal would reduce the sugar quota for 1988, with the reductions to be borne first by developed countries until the allocations were exhausted. Australia strongly urged the US Administration to remove these provisions from the legislation before it was passed. His Government fully endorsed the Secretariat's assessment (paragraphs 13 and 14) that the most acute problem in the subsidies area had been the competitive export subsidization of temperate agricultural products, particularly grains. The US Export Enhancement Program and the Community's Common Agricultural Policy had been the main contributors to current problems in world grain trade, and Australia was one of the countries particularly squeezed by subsidized competition from the Community and the United States in third-country markets.

The recent OECD Ministerial meeting had agreed on the need to tackle the excessive support policies at the root of the distortions plaguing agricultural trade, a view subsequently endorsed at the Cairns Ministerial meeting and at the Venice Summit. It was hoped that recognition of the problem could be speedily translated into action in the Uruguay Round negotiations. Australia was pleased to note that at the Venice Summit, leaders had agreed to refrain from actions which would worsen the negotiating climate and damage trade relations. Full implementation of this commitment would require a ceasefire on subsidies and other practices which destabilized world markets.

Another recently proposed measure of concern to Australia and many other countries was the Community's proposed consumer tax on vegetable and marine oils and fats (paragraph 62) which the Cairns Group Ministers felt would be inconsistent with the standstill commitment. Implementation of the measure could have very serious repercussions, including on negotiations in the Uruguay Round. He said that current tensions in world agricultural trade were not solely attributable to export subsidies; Japan, for example, heavily subsidized its agricultural producers and severely restricted access to its market with a wide range of barriers including non-tariff measures. Australia was also concerned by developments regarding the use of grey-area measures (paragraph 17-19), many of which contravened GATT provisions. The increase in bilateral solutions to trading problems was further damaging the international trading system, and the US/Japan semi-conductor arrangement was a good example of the problems such a device could cause. Australia had supported examination of aspects of this arrangement by a GATT panel.

He said that all countries had a part to play in fostering non-inflationary world economic growth by pursuing sound macro-economic policies and undertaking, rather than resisting, structural adjustment. The major responsibility, however, lay with the largest countries, which also had the largest current account and/or fiscal imbalances. At the Venice Summit, the leaders of the seven major Western countries had acknowledged the difficulties facing the world economy and their special obligations to improve world economic prospects through cooperative policy action. Participants had committed themselves to the fundamental need for macro-economic policy coordination and adjustment, for effective structural adjustment policies, for a strong and credible GATT as the best bulwark against rising protectionist pressures, and to refrain from actions in the field of agricultural production and protection which would damage trade relations. Australia hoped that the Summit's results would be followed up by prompt implementation of necessary policy measures, leading to enhanced, medium-term world growth prospects.

The representative of Korea said that this special Council meeting had been successfully carrying out a review of developments in the trading system. This rôle had become more important with the beginning of the Uruguay Round, as a review of the overall trade environment could have great impact on the progress of the negotiations. Korea supported the idea of attempting a collective assessment, in which it would be important to take account of minority views. He referred to a recent GATT press release (GATT/1409, pages ii-iii) and said that his delegation agreed with the Secretariat's identification of four areas of concern -- structural adjustment, inflation, debt management and trade frictions -- and with the conclusions, which he quoted, on current account imbalances.

Another important finding in the document was that developing countries' share in world trade had dropped to 19 percent in 1986 from 23 percent in 1985. Korea was keenly concerned over the impact of these phenomena on developing countries' trade and economies, because most were suffering from heavy foreign debt. C/W/517 also identified the US trade imbalance and protectionist moves in the US Congress as among the most serious trends in the period under review. His delegation was concerned over the continued increase in grey-area measures and shared the Secretariat's view that such problems could be dealt with through normal GATT channels or in the Uruguay Round. The strengthening of the functioning of GATT was a corner-stone of the Uruguay Round negotiations and should be taken up as soon as possible. While there was little in the document on the trade of developing countries, he emphasized that Korea was one of the few countries which had made further progress towards trade liberalization (paragraph 28). His Government had been carrying out a self-initiated five-year plan of trade liberalization since 1983, and a target of 95.4 per cent of Korea's external trade was expected to be reached by July 1988. That target had recently been increased to 97 percent, which meant almost full liberalization, except for products related to safety and to national security and some agricultural products.

The representative of the European Communities said it was disappointing that contracting parties had not to date taken advantage of these special Council meetings to try to reinforce GATT. Representatives continued to deliver monologues, in spite of the improved, if still imperfect, Secretariat documentation for these meetings. As representatives seemed often to be unable to make statements commensurate with the quality of that documentation, perhaps more time was needed to digest, and particularly to assess, the information provided. The purpose of the exercise should be a collective assessment or evaluation, which the Community had for a long time been suggesting, focusing on the state of the multilateral trading system as a whole and not on individual actions or particular obsessions; this was what was missing. It was also regrettable that that overall view was not more balanced; too much attention was paid to three major trading partners and too little, perhaps due to lack of information, to trade developments in developing countries (paragraph 28).

He said his remarks would fall under six points. The first point was methodology regarding the reporting of proposed and accepted decisions. A clear distinction should be made between an actual decision and the preparation of decision-making, as the two were often confused. When reporting on the preparation of decisions, state sovereignty and the danger of interfering in the internal legislative process had to be kept in mind; nevertheless, it was often important that feedback from outside that process be heard and taken into account by the decision-makers. In future, the Secretariat documentation should reflect this clear distinction.

The second point referred to the link between the Uruguay Round and the economic environment (paragraphs 9, 10 and 27). While it was true that the Uruguay Round had its own built-in process and followed its own course, he asked to what extent it was likely to influence the day-to-day affairs of governments and the business world. To what extent were day-to-day realities going to mortgage or undermine the negotiating process and void the Uruguay Round of all meaning? There was a critical need for solidarity and interdependence among all countries, including those with differing economic policies at the state and intergovernmental levels. The sacrosanct separation between finance, money, trade and development had to be broken, and the ignoring of trade ministers by finance ministers -- and the ensuing adverse consequences -- had to cease.

The Community was pleading for solidarity, interaction and interdependence between trade, finance, and money. The situation in the United States was a good example: (1) the United States was dependent on foreign capital to finance its budget deficit, to such an extent that the Community was concerned about US politicians' margin for manoeuvre; (2) if the US trade deficit could be stabilized at US$160 billion per year over the next two to three years, the budget and trade deficits together would result in the unimaginable figure estimated at US$1.5 trillion of external debt and US$2 trillion of internal debt, with a debt-service figure

evaluated at US$245 billion annually; (3) the capacity of the rest of the world to finance this debt, added to the indebted countries' -- particularly the developing ones -- capacity to service and amortise their debt, had to be maintained, which meant that markets had to be kept open to provide the resources with which the world could continue to meet the US need; any closing of the US market could have incalculable consequences with boomerang effects on the prosperity of the United States itself. He said that the fate of the rest of the world was inextricably related to that of the United States, which was not capable of solving its economic problems alone. Today, there could be no purely American solution to any of America's major economic problems.

The recession in the United States was no longer hypothetical and would have apocalyptic effects from which no country would be spared. Four types of action were needed to avoid a severe recession: (1) the US budget deficit had to be reduced, through a combination of new taxes and reduction in spending, even if this meant sacrifices in terms of standards-of-living; (2) interest rates had to be lowered and US monetary policy made more flexible, while avoiding inflation; (3) to prevent recession, Europe and Japan had to stimulate growth by reducing taxes and by increasing consumption; (4) the problem of developing countries' debt had to be mastered, not by short- or medium-term measures but by long-term restructuring; otherwise there would be a very heavy price to pay for recovery in the United States. This was the true meaning of interdependence. This was the kind of collective evaluation contracting parties should make, to show that all were members of a unique multilateral system which should not be neglected. Paragraph 27 of C/W/517 mentioned this clearly and was the first time reference had been made openly to monetary and economic policies of a major power such as the United States.

His third point related to transparency and he referred to Section B, paragraphs 179-211 and 251-259, in which a series of tariff and non-tariff measures were mentioned. He noted that there were 17 developed and 27 developing contracting parties which had not met the notification requirement, and said that the volume of trade covered by such measures might do violence to transparency. Before going further in the Uruguay Round negotiations, notification procedures for actions with both positive and negative effects should be strengthened.

The fourth point related to trade in agriculture. Negotiations were contractual; only the General Agreement itself and the Punta del Este Declaration including Mr. Iglesias' statement, committed participants. What happened outside served only as signals. At the recent OECD Ministerial meeting in Paris and the Venice Summit, where the major trading partners had indicated that a wide range of substantive proposals on agriculture would be made in Geneva, important signals had been given which would encourage the negotiating process. They should not, however, be used by contracting parties to undermine the basis established at Punta del Este or to deal with their own unappeased obsessions.

Agricultural problems could not be mastered within the Uruguay Round unless approached in a global and specific way taking account of the specificity of agriculture, and not in a partial and biased way; they could not be solved by looking only at the tip of the iceberg, by forgetting the stocks causing trade tensions, and the need to reduce them, by forgetting that market access and respect for the disciplines regarding competitiveness had to be improved and that production had to be adapted to consumption, including in the world market. All these problems had to be addressed simultaneously. These were: the elimination of surplus stocks, the prevention of their reconstitution, increased access to markets, improved disciplines to achieve more equitable conditions of competition and the adjustment, on a sector by sector basis, of production to global consumption. Attacking only one or two aspects would simply lead to "ersatz" solutions. As an example, the "zero option" in terms of agricultural support was simply untenable; given the dependence of agriculture on inputs from industry and the tertiary sector, income disparities between the sectors could not be allowed to grow unchecked. It was equally absurd to talk solely in terms of world market prices, since these markets were merely residual and unrelated to production.

The Community was prepared to make efforts to improve discipline in export competition but could not accept the very limited zero option which had been suggested. Market signals should play a more important rôle, providing the market was not a jungle. Also, GATT disciplines should be improved, leading to general improvement in the agricultural sector and markets, which could provide the basis for harmonious trade in this sector to the benefit of all, particularly the developing countries.

The fifth point related to grey-area measures, which the Secretariat document referred to as "contravening" the General Agreement. Such new terminology was imprudent; the term "inconsistent" had been used in the Punta del Este Declaration. The Secretariat's choice of language was unacceptable since grey-area measures were simply outside the GATT. For example, measures falling under the Subsidies and Anti-Dumping Codes (BISD 26S/56 and 171 respectively) could be subject to bilateral arrangements. While those referred to prices, it was not to be excluded that they could apply to quantities; the fact that they were not notified to GATT did not a priori mean that they were contrary to it. Therefore, the Community objected strongly to the contention that grey-area measures "contravened" GATT, and subscribed only to their description as being outside its provisions.

The sixth and final point related to the Secretariat's concern that the bilateral structural imbalance between the United States and the Community could give rise to protectionist measures. It was true that as Mr. Iglesias' statement had pointed out at Punta del Este (regarding balance of benefits), the increasing imbalance in world trade was a serious problem which would have to be addressed by a variety of measures including

macro-economic policy, exchange rates, restructuring, and trade policy. However, the United States to date was using only trade policy measures to correct world trade imbalances. The accumulated impact of long-term structural and bilateral imbalances would make the multilateral system non-viable. It was not a question of right or of law, but of political and economic wisdom. Prolonged bilateral structural disequilibria were politically unacceptable since they created tensions. They should be addressed in the Uruguay Round to avoid further misunderstandings.

In concluding, he said he considered the Secretariat note a valuable source of information for researchers. To be of real use, the special Council exercise should lead to a collective assessment evaluating the consequences for the future; the Chairman should undertake consultations on how to achieve this. In general, all contracting parties were vulnerable and it was an illusion to imagine that islands of prosperity could be maintained. Bilateral "old wives' remedies" were not the solution. There was a need for concerted action if a major recession was to be avoided. Unless this could be done, the results of the Uruguay Round would be rendered derisory.

The representative of Sweden, on behalf of the Nordic countries, said that the increased number of dispute settlement cases was evidence that tension continued to run high in the trade field; however, it was encouraging that parties to disputes had increasingly sought to redress their grievances within GATT. This demonstrated faith in GATT and reinforced the principle of transparency in the multilateral trading system. Although it would strain GATT's dispute settlement machinery, the Nordic countries would prefer to see disputes dealt with in GATT rather than solved on a bilateral and non-transparent basis. Regarding developments in the so-called grey area, the increasing number of these measures underlined strongly the importance of a thorough discussion of this problem in the Uruguay Round. The use of these measures to try to solve trade problems threatened the basic principles of the multilateral trading system. A very positive development was the number of countries which had made moves to accede to GATT, and the Nordic countries looked forward to negotiations on these countries' accession.

He said that the Community's proposal that a collective assessment be made of the situation in the trading system merited profound reflection. It was important to discuss the rôle of GATT in the formulation of policy strategies in international trade. However, this matter might be better suited to consideration in the negotiating group on the Functioning of the GATT System, and the Nordic countries were not at present prepared to decide on the rôle of the special Council meeting in this context. While it was important that such a discussion had its point of departure in the existing GATT surveillance machinery, it was not clear that the special Council meeting was the proper forum for such a collective assessment. The Nordic countries remained open to discussing this matter. He said that it would be very important to review the Council's surveillance activities in

light of the Punta del Este Ministerial Declaration, and he repeated the Nordic countries' view that pragmatism should guide this review. The rôle of the special Council had to be considered in light of the fact that the Uruguay Round Surveillance Body had been established for surveillance of the standstill and rollback commitments. Duplication of work should be avoided.

In concluding, he drew attention to paragraph 414 of C/W/517 and stressed, on behalf of Sweden, that no form of arrangement between Sweden and the United States on finished steel had been or was being discussed. There had been informal consultations on the situation in steel trade, but it was clear (page 22) that Sweden had no voluntary export restraint agreement within the framework of the US steel program.

The representative of Jamaica drew attention to the continued increase in the use of grey-area measures by certain major entities to solve trade problems (paragraph 17). There was a close correlation between regular GATT work and the Uruguay Round, and Jamaica was concerned that grey-area measures were being used to circumvent standstill and rollback commitments. The European Economic Community's proposed amendment to its anti-dumping legislation and its introduction of the concept of input dumping (paragraphs 344-346) constituted a major departure from GATT rules at a time when contracting parties were negotiating new rules or improvements in existing rules. Similar action was also being considered by the United States (paragraph 351). He drew attention to the view espoused by the US General Accounting Office that quantitative restrictions, rather than tariffs, should be the Government's preferred method of protecting domestic industries (paragraph 366). This view should be of concern, as it came at a time when a number of contracting parties, including Jamaica, were trying to use only tariffs for trade protection. In concluding, he said that it was impossible in a half-day meeting to do justice to the intention of the 1982 Ministerial Declaration regarding the surveillance rôle of the special Council meetings.

The representative of Canada said that the Secretariat document gave a certain balance to its assessment of developments in the trading system by acknowledging the importance of resistance to protectionist pressures and by cataloguing positive actions taken by governments to liberalize trade. The document also rightly noted that protectionist pressures were strong and had in some cases resulted in actions being taken outside GATT, some transparent and some not. The document also noted the increased resort to the dispute settlement mechanism; however, the reason for this was perhaps not the one given by the Secretariat (paragraph 8), but rather contracting parties' need to use, and to have confidence in, the multilateral means to respond to protectionist and trade-distorting actions. Canada shared the concern expressed by others over the translation of protectionist pressures into draft legislation, and over proposals put to the Community's Council of Ministers that would seriously distort trade. To adopt such measures

would be counter-productive and would put into question progress in the Uruguay Round. Canada was encouraged by the political commitments in the Venice Summit's communiqué regarding the need to respect the principles of standstill and rollback.

In concluding, he said that his delegation would like to see paragraph 28 expanded and with more detailed analysis. Canada agreed on the need for more effective surveillance of trade policies. However, this would require careful reflection, and the Uruguay Round would provide the opportunity to address this question.

The representative of India said that developments in the period under review should be seen in the context of the ushering in of the Uruguay Round. The Secretariat had drawn attention (paragraphs 6-28) to some of the alarm signals to which contracting parties, particularly as participants in the Uruguay Round, should be alert. There was great irony in the contrast between the progress of that process and the difficulties and tensions in the actual conduct of trade policies. The document noted the proliferation of grey-area measures used by major entities to solve trade problems. Such short-term solutions created even deeper long-term problems and did not solve the basic problem they addressed. India applauded the Secretariat's view that the term "grey-area" was a misnomer, because measures such as orderly marketing arrangements and voluntary export restraints did contravene GATT provisions; "grey-area" seemed to refer more appropriately to those measures' lack of transparency rather than their precise nature in the GATT context. Regarding comments by some delegations that paragraph 28 should be expanded, he said that the Secretariat was, in the overview section, merely summarizing the overall situation; this was not intended to be a definitive analysis of the period under review.

He said that the overall situation in the multilateral trading system was very precarious for the developing countries, with commodity prices at all-time lows, protectionist forces stronger than ever and competitive subsidization of temperate agricultural products. The spirit of Punta del Este had apparently disappeared. It was in this context that the extraordinary efforts of the developing countries to hold their own had to be considered.

The Secretariat document was of a factual and objective nature; it was up to contracting parties to draw conclusions as they saw fit. For India, the section on export restraint arrangements (paragraphs 409-443) was particularly important, as it showed how persistently certain trading partners continued to resort to such arrangements as, for example, on exports of machine tools. Such arrangements undermined the multilateral trading system and the Uruguay Round itself. Another area which was a perennial in these reviews was the continued indiscriminate application of anti-dumping and countervailing measures against marginal suppliers and

developing countries. Rather than being a check on unfair trade, such measures became a form of trade harassment. This matter had been raised in the Uruguay Round and hopefully would be addressed there.

The representative of the United States said that the documentation for this meeting was the best thus far produced and gave a good summary of a very difficult period. There was no question that there was tension in the trading system and that the international economic system was undergoing a period of historical importance. There was no doubt that imbalances in the trading system both were caused by and reflected those tensions. This had great political impact, and his Administration was committed to trying to keep that from breaking out into some form of protectionism. He asked what countries would be willing to buy from the United States when it tried to rectify its trade deficit, as so many had serious problems of their own, such as unemployment, inflation and low or negative growth rates, while others had high saving rates, low consumption and domestic subsidies for their uncompetitive industries. His delegation hoped that the Uruguay Round would address some of these matters; however, a collective assessment of the current situation should not be made in GATT at the present time, as this stage had not yet been reached. This matter could perhaps be discussed later in the meetings on the Functioning of the GATT System.

The Director-General drew attention to his periodic report on the Status of Work in Panels and Implementation of Panel Reports contained in document C/148, and noted that in two cases it had not been possible to meet the time limits for the establishment of a panel. In one of those cases, the US Customs User Fee, the problem had since been solved. He said that he was personally very pleased to note that the Panel on the US Taxes on Petroleum and Certain Imported Substances had been able to submit its report (L/6175) only three months after its first meeting with the parties to the dispute, and he hoped that the Council's consideration of the report would be equally expedient.

He then made the following personal comments on dispute settlement and on surveillance. On dispute settlement, he shared the Nordic countries' view that it was a positive sign that governments were more and more inclined to bring their disputes to GATT; on the negative side, however, the increase in the number of disputes was a sign of tensions in the trading system.

GATT's surveillance activities included the well-established practice of the special Council meetings, as well as the new procedures established under the Uruguay Round process which included, on the one hand, the surveillance mechanism, and on the other, discussion on the functioning of GATT. These elements should be seen as complementary and, he hoped, would ultimately answer the question of why there was a surveillance mechanism in GATT. One reason was to increase transparency, which was one of the main

purposes of the Secretariat document prepared for the special Council meetings, and he noted the increase in the length of this document. The next question, however, was how this increase in transparency was going to be used. A growing number of people outside GATT were aware of its surveillance exercises and were wondering what their purpose and result were.

He was struck by the fact that the present discussion had moved into different possible areas of deeper examination. While a number of comments had been made on the interlinkages in the general economic-financial-monetary context in which trade policies were carried out, he asked what conclusion could be drawn. There had also been a number of comments on specific areas of trade, such as agriculture, but there were other sectors where problems existed. He asked if future special Council meetings should perhaps, and based on prior agreement, discuss specific areas of trouble in world trade and try to draw conclusions to help other processes. Or perhaps the situation of specific countries, specific groups of countries or specific types of measures should be examined.

He was floating these ideas in order to help focus the special Council discussions. He himself drew one conclusion, which was the need to return to the negotiating table. He asked to what extent participants in the negotiating groups were aware of the factual background -- what was happening in the real world -- regarding each group's area of work. Regarding the way the document had been drawn up, he was satisfied with the different divisions in Chapter B; perhaps the negotiators should have this document available when they met under these different items. The simple question of whether the situation had improved or worsened since the most recent surveillance exercise was what should bring contracting parties to give a more concrete, substantive context to the surveillance exercise. He was aware that the surveillance exercise was not meant to seek redress, but that perhaps there should be an interim step to bring contracting parties out of a too-general discussion into a more specific approach. These points should be kept in mind in the discussions in the group on the Functioning of the GATT System where, in his view, contracting parties would have to draw conclusions. At the same time, however, contracting parties should try to see if better use could be made of the present special Council meetings.

The representative of Hong Kong said that the Secretariat document showed a disturbing trend towards bilateralism and unilateralism in response to intense protectionist pressures in some countries. This was evidenced by the great variety of developments reported in the document, one of which, the US/Japan semi-conductor arrangement, had already been touched on by other delegations. His delegation agreed with much of what had been said. While it was not in doubt that the United States genuinely perceived a real problem in this area, the means by which it had addressed that problem was questionable. The bilateral solution chosen showed little

regard for GATT provisions and, as paragraph 130 of C/W/517 made clear, was very much at the expense of the legitimate interests of third parties. Moreover, the panel established by the Council in April to examine this issue had yet to be composed. It was regrettable that the Council had not been able to take a more active rôle in this case. The facts were well documented; there had been no shortage of information; the affected parties had made their concern well known; the undesirable effects on the trading system as a whole were obvious. Therefore, the dispute settlement mechanism should be made to work expeditiously and effectively.

Another development cited in the Secretariat document concerned US legislative proposals. This, too, had been touched on by many delegations. Hong Kong had on previous occasions drawn attention to the risks posed by the latest bill on textiles and footwear, as well as proposals concerning dumping, countervailing duties and other matters. The fact that these matters were under consideration in the domestic legislative process of a sovereign country did not mean they might not have a devastating effect outside that country, in the GATT, on the Round and on each individual contracting party. It was understandable that the potential victims, albeit not enfranchised, would want to express their alarm and concern. He noted that the vast majority of these legislative proposals were not supported by the US Administration, which should be wished continued success in resisting them. One aspect of that resistance was the US Administration's desire for progress in the Uruguay Round. This was important in order to create a viable negotiating process in which each participant could pursue negotiated multilateral solutions.

Regarding the commitments on standstill and rollback, Part 2 of C/W/517 stated that the question of improving surveillance in those areas was being pursued in the Round. In fact, little had transpired thus far, and concerns over apparent breaches of standstill and lack of progress on rollback remained. Hong Kong was interested to see if the Surveillance Body meeting to be held later in the week could advance its work in a useful direction. In Hong Kong's view, any serious erosion of those commitments could undermine the viability of the Round and thus threaten the trading system itself.

The representative of Malaysia, on behalf of the ASEAN contracting parties, said that the questions raised by the Director-General concerning the impact of these special Council meetings on the world outside GATT were important. The ASEAN members hoped that those countries with which they had trade problems would listen to the 400 million voices of that region and would take the message to capitals for action. Regarding the Uruguay Round, it was hoped that the process would maintain a steady pace forward and that at some point, certain areas of the negotiations, such as tropical products and agriculture, might be put on a fast track and results achieved. The ASEAN countries were apprehensive about developments that had taken place outside GATT, in particular the increase in bilateral

arrangements between major trading partners, and were extremely concerned over increasing protectionist pressures in the major developed countries and the possible consequences of a trade confrontation among them. A breakdown in the international trading system would have severe repercussions in all countries' economies.

He said that the successful market-oriented economic policies of the ASEAN countries had enabled them to be a force for peace and security in the region; however, that situation depended on their ability to maintain strong economies, which in turn depended on their continued access to the major trading partners', as well as others', markets. These countries were very concerned about the danger of proposed protectionist trade legislation in the US Congress as well as certain legislation under consideration by the Council of the European Communities. Such legislation could disrupt the multilateral effort underway in the Uruguay Round, since some of the provisions were not consistent with GATT and would constitute a unilateral interpretation of the General Agreement and some of its Codes. He gave several examples: the proposed changes in anti-dumping and countervailing duty laws of the United States and of the Community; US provisions which would provide additional subsidies to agricultural production, especially rice; the US Textile and Apparel Trade Act of 1987 which was not consistent with GATT; and the Community's proposed tax on oils which ASEAN exporters had already spoken out against. In concluding, he said that the ASEAN countries' welcomed the unilateral measures announced by Japan several months earlier and at the Venice Summit regarding increased access to its market; however, they wanted to see those measures put into action, and hoped and expected Japan to further open its markets during the course of the Uruguay Round.

The representative of Argentina agreed that the man in the street in most countries was not aware of the international efforts undertaken in GATT. Individuals and governments had to be aware of the need to adjust the asymmetries in the international trading system, as the future of humanity as a whole was at stake. While the Secretariat document appropriately reflected developments in various sectors and the impact of contracting parties' policies on the multilateral trading system, two aspects of concern to Argentina had been left out. One (paragraph 14) related to the impact of certain countries' agricultural policies, which in 1986 had caused a 30 percent reduction in his country's agricultural export receipts. The second related to the resolution of conflicts between the United States and the Community following the accession of Spain and Portugal to the Community. Argentina, as a party directly concerned with these accessions, was negotiating with the Community on this matter. Neither of these two points were mentioned in the document.

He referred to the statement by Australia regarding the impact of the major trading partners' policies on other countries' economies, especially when coupled with domestic adjustment efforts. Regarding the Community's

statement, Argentina agreed that the monetary, financial and trade sectors were interrelated. The influence of protectionism and trade distortion had given rise to undersirable fiscal consequences, in particular regarding budget deficits, which had in turn led to restrictive monetary policies. The latter had led to increased interest rates and indebtedness, downward pressure on prices of raw materials, and misallocation of resources at the international level. This had had a negative effect on the developing economies and thus on their potential to play a dynamic rôle in international markets. The United States had asked where the markets for its products were; to the extent that resources were used efficiently, protectionism reduced, and countries enabled to play a dynamic rôle internationally, solutions could be found to the serious imbalances in world trade.

While the Secretariat's document had stressed many of the negative developments in world trade, some delegations had mentioned positive aspects such as the commitments undertaken at Punta del Este to find solutions to the serious structural problems in international trade. It might be useful to study and evaluate in the Group on the Functioning of the GATT System, some of the Director-General's comments and the Secretariat's documentation on surveillance. In concluding, he stressed that C/W/517 was positive in that it indicated the realities of the international trading system and recalled the Punta del Este commitments in order to find a durable, if not a permanent and final, solution to the structural problems currently plaguing world trade.

The representative of Hong Kong, referring to the Director-General's report on the status of work in panels (C/148), expressed his delegation's satisfaction at the liberalization of the two remaining quantitative restrictions on imports into France of toys and radios from Hong Kong with effect from 1 January 1987. This had brought the dispute[1] to a conclusion. He noted, however, that the time between the initial invocation of panel proceedings and full implementation of the Panel's recommendations had been about four years.

The representative of the European Communities said that there had been cases in which implementation of panel recommendations had taken longer and in which the Community had been the complainant.

The Chairman, in summing up, said it seemed, from the discussion, that there was general and very broad satisfaction with the quality of the Secretariat documentation for this meeting. There had been, as usual, the warnings and requests for care in the collection of the information presented, but there seemed to be no significant reservations on this

[1] See document L/5511.

satisfaction. There also seemed to have been no fundamental dissent from the basic issues highlighted by the Secretariat, particularly in the summary, which included references to a significant number of protectionist measures maintained or adopted, and foreshadowed for possible adoption, during the period under review.

The Secretariat had made an extremely pertinent observation in paragraph 9 where it underlined the contrast between progress in the Uruguay Round and the difficulties and tensions that marked trade conduct. There had been progress in the Round, and that observation was a particularly key one to draw as a conclusion from the discussion. The Director-General had noted the theme, in many comments, of the inter-relationship between trade, money and financial and related issues. It was good that GATT was having a debate on what was a key element of international discussion on trade issues, and the present discussion seemed to have accurately reflected the mood of discussion among policy-makers. In concluding, he said that there seemed to be a general enthusiasm to maintain this surveillance rôle, ranging from simply maintaining it to a keenness to enhance it; however, there did not yet seem to be a clear idea about how to do this. One delegation had proposed that contracting parties engage in a process of collective assessment; while this idea had received significant support, there seemed to be a general preference by some delegations to include this among issues for consideration regarding the operation of surveillance in GATT, by the group on the Functioning of the GATT System.

The representative of the European Communities said that there should be no misunderstanding regarding the Community's satisfaction with the Secretariat document, even though it perhaps contained too much information to digest easily. However, he wanted to insist on two points. First, the Community had for a long time been suggesting the idea of a collective evaluation. His delegation was not convinced that this idea had really passed over into the negotiating round, but it should, at least, be discussed in order to clarify what was meant by this term. A collective evaluation did not automatically mean a compulsory consensus, but rather a number of signals which contracting parties would try to send to the outside world, along the lines of some of the Director-General's comments. The Community wanted this idea to be taken up in consultations, even if not all delegations were in agreement. Second, he reiterated that what was necessary in these meetings was a collective evaluation of the state of GATT and what it had done. The Community was not trying to settle its trade problems in the context of these meetings and had been careful not to criticize or praise any contracting party.

Referring to paragraph 153, he said that the "gentleman's agreement" described therein had not been accurately portrayed. This referred to an informal agreement reached in 1977 between the then nine-member Community

and the United States to the effect that neither would apply the provisions of the Multifibre Arrangement to their bilateral trade in textiles and did not affect the right to normal GATT safeguard action.

The Chairman said he would undertake to consult on the proposal for collective assessment in the lead-up to the next special Council meeting, taking note, however, that some delegations felt other fora might be better suited to such a discussion.

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