GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

C/M/221
11 July 1988

Limited Distribution

MINUTES OF MEETING

Held in the Centre William Rappard on 15 June 1988

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

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

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

He drew attention to the Secretariat document, "Developments in the Trading System, October 1987-March 1988" (C/W/548 and Add.1), drawn on notifications made by contracting parties and on other relevant information. The Secretariat had continued to rely partly on unofficial information, since official notifications had been inadequate to provide the basis for a well-structured and informed review. The document was produced on the Secretariat's own responsibility and did not commit any delegation. Nevertheless, delegations were given the opportunity, and were encouraged, to send in corrections on points of fact and of appreciation.

He emphasized that the basic purpose of the special Council meetings was not to perfect the Secretariat's document, but to monitor implementation of the 1979 Understanding and of paragraph 7(i) of the 1982 Ministerial Declaration, and to engage in a substantive review of recent developments in the trading system. Thus, the basic purpose of the document was to provide a starting point for a discussion focussed on themes which facilitate this review. This discussion should not be limited to the specific issues or facts mentioned in the document, and should enable the Council to focus on those aspects of current developments in the trade policy environment that were of particular relevance to GATT's ongoing activities, and the cooperative action, or lack thereof, by contracting parties in the trade field. He said that unless contracting parties made deliberate efforts to review their performance over a given period of time, they might find themselves to be merely mechanical actors on the international trade scene. He had been struck by contracting parties' common concern about and attachment to the working of the GATT system, regardless of the national or regional interests they represented. In his view, the Secretariat had produced a document of quality. It had sought as much relevant information as possible and had attempted, given somewhat limited scope, to make an informed contribution to policy-making and thinking in capitals.

Many representatives expressed their appreciation for C/W/548 and said that the document was a useful tool in carrying out the mandate of the special Council meetings. A few representatives pointed to some factual inaccuracies in the documentation.

The representative of the United States said that the special Council meetings were of great importance in providing the opportunity for contracting parties to discuss the trading system in general and trade policies in particular. While the Secretariat had put considerable work into the background document, the United States was very disappointed with it, and had to insist that it be viewed as a draft. Many changes would be needed before the United States could approve its publication. He would specify some of those changes at the present meeting, and others would be communicated directly to the Secretariat.

Regarding the Overview, he said that this section began not with an overview but with sectoral developments, specifically the issue of agricultural subsidization. The United States agreed that this was a very serious matter, and for that reason had proposed a total phase-out of such programs; however, the issue of market access was equally critical. The document referred to recent dispute-settlement cases as reflecting "problems" in agricultural trade, when in fact the vast majority of those cases involved protection of domestic production. Regarding regional arrangements, the analysis should have distinguished between preferential trade arrangements and others, like the US-Mexico Framework Agreement, which contained no preferential trade provisions and provided for measures to ease trade restrictions.

On the issue of the Generalized System of Preferences (GSP), he drew attention to paragraph 16 of the Overview, and noted that the reference to GSP developments ignored, among other things, the basic motivation underlying the United States' use of its GSP schemes to encourage developing countries' trade and to promote development. The United States felt that it had a responsibility to monitor continually its GSP program for effectiveness, and in its view, the hard data and experience justified its decision to remove certain countries from that program.

The United States was disappointed with the brevity of the comments in the Overview, and in the general text, dealing with the large volume of quantitative restrictions currently applied. The implications of such measures should have been more extensively covered, and the pervasive use of import licensing to restrict trade should also have been described. In the US view, the proliferation of such measures was one of the most critical issues before the trading system at the present time. The characterization of the US-Japan Semi-Conductor Agreement as the "most significant" trade development in electronics in the period under review was overblown. At least as significant was the European Community's use of anti-dumping regulations to address the trade created by "screwdriver" operations assembling imported parts, and the continued existence and expansion of import "surveillance" by the Community on Asian electronics.

While it was difficult to disagree with the point of view in the Observations section that trade policy continued to be influenced by macroeconomic developments, it was clear that the causes and ultimately the cures for aggregate trade imbalances were primarily questions of macroeconomic adjustment. The United States disagreed with the argument that potential shifts in trade policy were influencing private market participants to such an extent that trade policy itself had come to significantly influence the macroeconomic environment. To the extent that financial and stock markets had in recent months been "moved" by trade, that influence had probably been related more to the markets' perceptions about progress in reducing aggregate trade imbalances than to the trade policy environment per se. Given the importance to the management of trade policy of reducing the aggregate trade imbalance, the Observations section could usefully have highlighted some of the progress recently made in addressing those imbalances, which had passed somewhat unappreciated by the press and general public. Underlying the progress on reducing the US trade imbalance was an encouraging pace of domestic macroeconomic adjustment which should steadily reduce and eliminate US trade imbalances in coming years. For example, over a 6-quarter period, US domestic demand had grown nearly a full percentage point less than US gross national product. Furthermore, current strong growth in US business investment promised to facilitate a path of adjustment that would gradually reduce trade imbalances while sustaining US and global trade and economic growth.

In conclusion, he said that the United States hoped to see the Overview section receive more attention in future issues, and he suggested that there might be a larger number of informal meetings prior to the next special Council meeting in order to deal with inadequate drafts such as the present one.

The representative of the European Communities said that the US statement was proof that the special Council meeting exercise was now becoming interesting. For a long time the United States and other contracting parties had reacted in these meetings to facts, and had not participated in the collective assessment exercise which the Community had tried to foster. It had been agreed that the Secretariat should carry out its tasks in connection with these meetings on an experimental basis. The Secretariat had been extremely cautious in its approach, and had said that the document should be read in conjunction with the GATT publications on developments in world trade and on GATT activities. The document published by the Secretariat was an important and substantial study, which received very little reaction from contracting parties. While paragraph 7(i) of the 1982 Ministerial Declaration spelled out a mandate for the special Council meetings, they had become a routine affair, a matter of formality. The Community had taken an initiative to move things forward, but wondered if the Secretariat intended to continue the experiment and under what circumstances. To a certain extent the United States was right in its remarks about paragraph 24(iii) regarding protectionist pressures and the macroeconomic environment.

Regarding the GSP, paragraph 24(vii) of the document contained a factual error, which needed to be corrected, and an element of appreciation, which he would not seek to correct, because it was made under the responsibility of the Secretariat, in the reference to the Community's removal of Korea from its GSP scheme. In fact, the Community was seeking to offset discriminatory protection, not to achieve adequate protection. Many contracting parties seemed to have forgotten what had been agreed upon regarding GSP, which should perhaps be examined again, but from the inside and without involving new ideas that had nothing to do with the original concept of GSP. He recalled that the Community was looking for a collective assessment precisely so as to avoid any country being on the bench of the accused, and stock being taken of a situation without laying blame for that situation.

The Community found the Secretariat's document to be sound, from the standpoint of this experimental approach, but timid. There was something behind the whole exercise lacking in the document, and he would try to identify it. The developments cited in the document could be understood only if the environment was taken into account. He had observed that there was a contrast between the forecasts of various entities -- politicians, traders and others -- and the realities of the situation at hand. Many of those commenting on the prevailing economic situation had mentioned certain signs and signals which had the effect of creating great concern and worry for the future. For example, the President of the World Bank had uttered discreet warnings in saying that if there were to be a monetary and financial disequilibrium which could not be re-absorbed, if there were an acceleration of or return to inflation or raising of interest rates, these would be signals of an imbalance which would grow worse and which was, among other things, connected to the instability of exchange rates. This situation caused excessive risks in connection with direct investment. Because of this, there had been for three years a fall in the flow of foreign direct investment abroad in three zones -- the United States, Europe and Japan. This was an extremely important fact which automatically strengthened domestic internal trade, as in the Community where, since 1984, there had been more rapid development of intra- rather than extra-Community trade. This important signal was not without consequences for the multilateral system.

Also, there were far-reaching structural changes in process in the Community, which was importing and exporting fewer material goods, while developing exports in invisible goods. He said that it would be an enormous error to refuse to speak of services in such circumstances, as this was the future of the Community and crucial to it. But what was the impact of this situation on the multilateral trading system? It seemed that the Community's internal developments would inexorably be reflected in trade-policy measures, and this was a worrying sign if such a situation could not be dealt with properly. The Community could not expand its exports of material goods without reducing market access for developing countries, as was pointed out in the Secretariat document. There was a kind of falling-out-of-kilter of the global situation; there were frenetic efforts being made to maintain and strengthen the multilateral trading

system while at the same time, within the multilateral trading environment, there were insufficient, inadequate and absurd efforts being taken regarding the monetary situation. This was an important point, and could have been reflected in the document. He suggested that contracting parties make some collective observations, which was part of their collective responsibility.

Contracting parties could negotiate only with full knowledge of the external trade environment, where there was the risk of enormous problems being created. For instance, paragraph 24(ix) of the document cited the strengthening of regional trade cooperation; all of these developments had to be thought about carefully. What would be the future of the multilateral system? The Communities were just as responsible for that system as any other regional trade zone. In conclusion, he referred to paragraph 24(vii) relating to monetary measures to be taken by certain competitive developing countries. This kind of operation had been necessary because there was no credible international monetary system capable of sustaining a multilateral trade system which should be, and remain, an open one.

The representative of Yugoslavia said his delegation considered that the Secretariat document spoke for itself, and that it would be difficult to say anything which had not already been said. It was clear that trade policy developments had not been favourable; protectionist pressures had not eased; competitive export subsidization, particularly in farming, was increasing -- according to OECD data, it was estimated at ECU 200 billion per year. This posed a serious threat to the development of agriculture in other countries, especially the developing ones which had all the elements for competitive agricultural production and export without subsidies. This practice flagrantly violated the principle of comparative advantage as an essential factor of a free market.

Resort by industrialized countries to anti-dumping and countervailing duties as a way of shutting out competitive trading partners had increased. The more subtle forms of protectionism, such as grey-area measures, voluntary export restraints and orderly marketing arrangements, had not abated. The increased application by developed contracting parties of various non-tariff measures which offset the positive effects of tariff liberalization was such that more than 30 per cent of all imports into those countries was subject to some form of protection. Furthermore, there had been a proliferation of bilateralism in international trade.

All contracting parties were aware of where such trade policy developments led. Yugoslavia wanted to underline, however, that protectionism and subsidization were harmful both to the countries applying these measures and to those against which they were applied. The developing countries were those most affected by measures to prevent market access, as protection was largely directed against them. This impeded their efforts to carry out structural adjustments, to service their foreign debt and to ensure sustained growth and development. The promotion of

exports of endebted developing countries -- for which the trade policies of industrialized countries were instrumental -- was essential to solving the debt problem. Most striking in the Secretariat document was the fact that the chief protagonists of trade liberalization were the developing countries which, while industrialized countries were raising various trade and other barriers, were multiplying steps to liberalize their trade. Most of the trade-restrictive measures in developing countries were taken for balance-of-payments purposes. However, if industrialized countries continued their protectionist policies, the liberalization process in developing countries could be halted.

In conclusion, he informed the Council that in May his Government had undertaken a number of important measures to liberalize its trade régime. Thus, 40 per cent of all imports in 1988 would be completely free, as against 15 per cent in 1987. About 34 per cent of imports would be conditionally free, and only 26 per cent would remain subject to some form of controls; by the end of 1988, 50 per cent would be completely free. Import liberalization as a form of intervention in the domestic market would be intensified. Import liberalization was linked to full price liberalization which included 60 per cent of goods whose import was basically free. These measures, which would be notified to the Secretariat shortly, were all part of a general policy of liberalizing the domestic market, including the foreign exchange market, and of an overall economic reform that should be carried out by the end of 1988.

The representative of Nigeria said that there were two issues crucial to his country on which its position had not been satisfactorily reflected in the Secretariat document. He reserved Nigeria's right to communicate other corrections to the Secretariat directly. He drew attention to paragraph 15 regarding tariffs, and said that although his delegation had made available to the Secretariat information regarding far-reaching tariff liberalization programs, the Secretariat document had not mentioned this development. The Secretariat seemed to point the finger at smaller contracting parties and to ignore their positive contributions. He then drew attention to paragraph 422 regarding subsidies, and said that in Nigeria there were no subsidies, only production incentives in agriculture. Nigeria's efforts in trade liberalization were well known, including those regarding petroleum subsidies.

The representative of Singapore expressed his delegation's concern that adherence to the commitments on standstill and rollback had been far below expectation. The Secretariat document indicated that pressures for import relief had continued unabated and, on a number of occasions, new so-called "grey-area" measures had come into being. Pressures for protectionist legislation had remained strong, and governments had continued to seek bilateral arrangements outside GATT to resolve trade disputes. Singapore, too, had fallen victim to recent action taken in response to protectionist pressures. One of its major trading partners had removed Singapore's preferential tariff access to its market on the ground that Singapore could now compete effectively in that market. This would mean the introduction of tariffs on exports from Singapore rather than a move to halt or reverse protectionist measures. He referred to recent

actions taken by his Government to pursue a more liberal trading régime as it restructured its economy. Singapore had always run a balance-of-trade deficit with the world, which in 1986 had amounted to S$6.6 billion or approximately 17.5 per cent of GDP. Despite this, Singapore had not engaged in protectionist practices and continued to maintain its free trade régime as one of the most open trading economies in the world. More than 90 per cent of its tariff lines were duty free; the very few tariffs that it maintained were kept constantly under review and, wherever possible, were reduced or eliminated unilaterally without requesting reciprocity. Recent examples of this involved refrigerators and airconditioners.

However, the dilemma for Singapore and for the developing countries generally was that the success of an outward-oriented strategy depended on an open international trading order. The continued increase in protectionism in the industrialized countries was likely to call into question the appropriateness of such a strategy, despite outstanding examples of past success. While the pursuit of this strategy by a sufficient number of developing countries would lead to increased imports, particularly of capital goods from the industrialized countries, such imports were likely to be sustained only if adjustments by the industrialized countries enabled an exchange of goods and services based on an international division of labour. Singapore therefore believed that the maintenance of an open international trading environment would encourage the adoption of outward-oriented strategies and make a significant contribution to the structural adjustment process.

The representative of Australia said that his country had always been a strong supporter of the value of the special Council meetings and of the freedom given to the Secretariat to prepare a document which would promote debate. His delegation normally used the Secretariat document as the basis for its interventions, but wanted to use the present meeting to notify recent changes in assistance for Australian industry.[1] On 25 May 1988, his Government had announced a comprehensive program of microeconomic reforms, including a number of changes to assistance for manufacturing and primary industries, which would hasten the process of structural change in Australian industry. These reflected a strategy of making Australian industry more internationally competitive and outward-looking. A key element was a program to reduce tariffs -- as the tariff was by far the dominant form of industry protection in Australia -- with a cut of about 20 per cent in average protection levels for the manufacturing industry. Highlights of these changes were as follows: tariffs greater than 15 per cent on 1 July 1988 would be reduced in five stages to 15 per cent by 1 July 1992; tariffs greater than 10 per cent but at or below 15 per cent

---

[1] See L/6368.

would be phased down to 10 per cent by 1 July 1992; the two per cent revenue duty on imports would be abolished from 1 July 1988. In some cases, the phasing down of protection to the maximum level of 15 per cent had already been achieved or would be before July 1992. For two industry sectors -- passenger motor vehicles, and textiles, clothing and footwear -- protection would remain above the general maximum tariff level of 15 per cent. However, even these sensitive sectors would bear further substantial reductions in protection: tariff quotas on passenger motor vehicles had already been abolished and the tariff rate would now be reduced to 35 per cent (from 45 per cent in April 1988) by 1 January 1992; the previously announced phased removal of tariff quotas on textiles, clothing and footwear would now be completed on 1 July 1995 instead of March 1996, and base quota general duty rates of 60 per cent for clothing and 50 per cent for footwear would be reduced to 55 and 45 per cent respectively. Australia had also decided to reduce assistance to the following agricultural industries: sugar, dried vine fruits, tobacco and citrus. This phase-down would be in line with the reduction of tariffs on manufactured goods. The estimated result of these changes would be a fall in effective rates of assistance for manufacturing from 19 per cent in 1986/87 to 14 per cent in 1992/93. For the agricultural sector, the average effective rate of assistance would be reduced from about 16 per cent in 1986/87 to 11 per cent in 1992/93. In conclusion, he said that these changes were evidence of Australia's commitment to the cause of trade liberalization and reaffirmed its commitment to the Uruguay Round negotiations.

The representative of Brazil said that his delegation welcomed the opportunity which the special Council meetings afforded for a debate on the current and future trends of the international trading system and how the development of commercial policy actions was influencing these trends. As stated in the introduction to the perceptive and well-balanced Secretariat document, the signals coming from the international market were far from optimistic; very little had been done by those whose influence was greatest in the system, to promote a more liberal and transparent trading environment.

While the disturbances in the financial and stock markets at the end of 1987 had had an effect on trade, there was nevertheless an underlying trend toward greater protectionism and increasing constraints in the international trading system. In all major areas of trade, restrictive measures had outnumbered liberalizing ones. Subsidization was still the main feature of agricultural trade, where efficient producers continued to suffer, not only in terms of lower earnings but also through the loss of traditional markets to highly subsidized competition. The major subsidizers were also affected by this trend, inasmuch as it exacerbated tensions between countries and required huge budgetary outlays for which much better uses could undoubtedly be found. In the manufacturing sector the situation was equally disheartening, with the continuing proliferation of restrictive bilateral arrangements in those areas of trade where developing countries had the greatest interest.

Regarding the situation of developing countries, Brazil continued to be seriously concerned over certain trade-inhibiting measures taken by the more developed countries, which the Secretariat document highlighted, among which was the exclusion -- and not only for trade considerations -- of some countries from GSP schemes. When the continued financial difficulties facing developing countries in their balance-of-payments positions was added to this already somber horizon, the capacity of these countries to further liberalize their trade régimes was very limited. However, this liberalization was necessary for developing countries, as it was their main vehicle for economic and social development, and their means of honouring international financial obligations. Decisive action had to be taken if these negative tendencies were to be reversed. He underlined some of the recent action taken by Brazil to try to promote its greater integration into the international trading system. For example, in May the Government had passed a series of acts, the prime objective of which was to promote a modernization of the tariff sector, to render it less cumbersome and more efficient as an instrument for directing general economic policy. The proposed new system sought to streamline the administrative procedures for imports by setting out clearly defined rules. The tariff margins would therefore reflect a greater alignment with the international reality and more liberalized access to Brazil's market. These basic guidelines would, it was hoped, permit Brazil's fuller participation in the world economy. On the export sector as well, new measures would soon be enacted to allow for greater transparency in administrative controls through the elimination of prior approval for almost three thousand products.

He said that this major revision of Brazil's tariff structure, the first for over two decades, should act as a stimulus to a more dynamic trade sector, whose contribution to overall economic policy had to increase if Brazil was to reverse the current trend of falling rates of growth and investment. Any gains, however, would be felt only if the global environment improved. It was his country's expectation that this package of measures would constitute an important step for Brazil's economy. In order to attain its goals of social and economic development, Brazil had to look outward, not inward, and to consolidate its potential in participating competitively and efficiently in the international trading system. At the same time, this effort had to be seen as a demonstration of Brazil's continued strong belief in the objectives set out in the Punta del Este Declaration.

In conclusion, he said that his delegation felt that the Secretariat document was an accurate description of developments in the trading system during the period under review, and that the contents of the Overview section reflected in an objective and clear way the main conclusions that could be drawn from that review. The material provided by the Secretariat served as a good basis for the discussions in this special Council meeting.

The representative of Korea said that his delegation shared the views in the Overview section of the Secretariat document that the trade policy environment had continued to be dominated by concerns over payments imbalances, exchange rate uncertainties, problems of unemployment and slow growth in many industrialized countries, as well as the continuing debt

problems of many developing countries. Korea firmly believed that developments in international trade and the trade policy environment had greatly influenced progress in the Uruguay Round negotiations. His delegation wanted to use this opportunity to clarify the liberalization measures recently taken by Korea, which were mentioned in paragraphs 378 and 625 of the Secretariat document. The main contents of these measures were: (1) market-opening measures for 145 items as of 1 April 1988, thus bringing the overall liberalization ratio to 95.4 per cent; (2) further market-opening for the remaining import-restricted items in July 1988; (3) abolition of import surveillance on a number of products, as well as of import recommendation requirements under various special laws; (4) restructuring of the current tariff rate system in 1988 to reduce the base rate from 20 per cent to eight per cent by 1993; and (5) reduction of special excise tax rates in order to promote domestic consumption. Korea believed that such efforts should be recognized as a small but valuable contribution toward a better world trade policy environment.

Regarding the European Community's investigation of unfair practices in shipping rates (paragraph 19 of C/W/548), his delegation wanted to provide further information. In August, eight Community shipping companies had filed a petition against a Korean shipping company under a new regulation on unfair pricing in maritime transport enacted on 1 July 1987. The Commission had initiated an investigation in November 1987 and on 26 May 1988 had notified its decision to levy a redressive duty on the ground that the Korean company's rate was lower than the normal rate because the company benefited from non-commercial advantages such as a waiver system and financial assistance. The company concerned was waiting for the European Council's final decision after having stated that it could not accept the Commission's decision on the following grounds: there had been no financial assistance for the construction of the ships; the Korean shipping market was practically open to foreign shipping companies; and the concerned company's rates were lower due mainly to its management and the fact that it dealt with low-valued cargo. He said that the Commission's decision on this case was a totally new introduction of "unfair trade concept and redressive measures" into the services sector, setting aside the facts in this case. Korea believed that such unilateral action discouraged the traditionally acknowledged good intentions on the part of the company in question, namely, hardworking, efficient management and dedicated service to the customer. However, all participants in this field should pay attention to this new signal.

The representative of Romania drew attention to paragraph 502 of the Secretariat document regarding Romania's decision to renounce renewal of its m.f.n. status under the Jackson-Vanik Amendment to the US Trade Act of 1974. He recalled that in February 1988, his Government had made an official statement reaffirming that Romania had always tried to develop economic, technical and scientific relations internationally and to cooperate with all states without distinction as to social systems, without conditions, and in a manner consistent with the principle of complete equality in law, respect for national sovereignty, non-interference in the

domestic affairs of other states, mutual advantage pursuant to international norms unanimously accepted, and in accordance with the provisions of the General Agreement. In this spirit, Romania had attempted to pursue a policy which favoured the extension and diversification of its trade relations with the United States. Those relations had been based on the Agreement on Trade Relations between the United States and Romania concluded on 2 April 1975, which included the mutual granting of m.f.n. status. Romania had discharged all its obligations under this Agreement and had continued to support the development of relations between the two countries. Under the Jackson-Vanik Amendment, the United States and its authorities had made the granting of m.f.n. status for Romania subject to a series of political criteria which constituted unacceptable interference in Romania's domestic affairs and which had nothing to do with trade relations between the two countries. Moreover, the procedure had been used to denigrate Romania and to interfere in its domestic affairs. His Government had warned the United States that it could not agree to the continuation of this approach to relations between the two countries, which was an infringement of the principles and norms governing relations between states, and of the rules of GATT. As a result of this situation, Romania had informed the United States that it would no longer accept the extension of its m.f.n. status on the basis of the Jackson-Vanik Amendment and had requested consultations on the development of economic relations according to the provisions of the trade agreement in force and free of all other conditions.

Prior to these consultations, the United States had announced in February 1988 that the granting of m.f.n. status would be discontinued as from 3 July 1989, that customs tariffs would be increased and other economic and financial measures would be adopted in its relations with Romania. In the face of this announcement, Romania had reiterated that it did not want to have its m.f.n. status considered in the context of the Jackson-Vanik Amendment and that it would examine the question of the taxes and customs tariffs under the m.f.n. clause vis-à-vis US imports into Romania.

His country had stressed that representatives of the two parties should get together as quickly as possible to discuss ways and means of developing their mutual trade relations and economic cooperation on the basis of the principles of international law, of equality before the law, and of mutual advantage. It was hoped that the United States would adopt a spirit of collaboration and of cooperation in order to overcome obstacles to the development of traditional relationships between these two countries to their mutual benefit, so as to enhance the cause of peace and of international collaboration.

The representative of Norway, on behalf of the Nordic countries, said that the well of information in the Secretariat document on events and developments in the period under review demonstrated both the precarious nature and the strengths of the international trading system. It was

important that all contracting parties have the opportunity to make factual corrections to the document, which was the case. As the report was based both on notifications to GATT as well as on available information from official sources and the economic press, there might be a case for distinguishing between the sources used in order to avoid potential misunderstandings. In no case however, did the Nordic countries want to limit the Secretariat's freedom to formulate and summarize the relevant facts and trends of trade policy developments in the way it saw fit, as the document was the Secretariat's responsibility.

The gist of the first part of the Observations section seemed to be that the situation had changed little, if at all, from the immediately preceding periods. Payments imbalances and exchange rate fluctuations persisted, resulting in too high a degree of uncertainty concerning both general prospects for economic development as well as developments in the trade policy environment. While these observations were clear, there was always some nuance as to where to put the emphasis in brief summaries like these. For example, the document indicated that it should be read in conjunction with GATT publications on the evolution of world trade and on the activities of the GATT itself. The title of the GATT Press Release GATT/1432 read, "World trade growth strengthened in 1987, and 1988 prospects are promising", and it went on to explain that the moderate acceleration in trade growth from the preceding year made the 1987 performance the second strongest thus far in the 1980s. It further made the observation that developments in world stock markets since October 1987 did not seem to have had any immediate adverse effect on world trade. The overall assessment of the period reviewed seemed to present quite a varied picture. On the one hand, there continued to be a high level of tensions in bilateral trade relations; on the other hand, the trading system had, at least thus far, demonstrated a strong degree of resilience by not being significantly affected by the October stock market crash.

An assessment of the rôle of the Uruguay Round in the evolution of recent events was, in a sense, impossible, because one would never know the course of events in the absence of the Round. Nevertheless, it would be prudent to state, as the Secretariat document did, that the Round had had a steadying influence in the daily world of commerce. It had not least demonstrated to the business community that governments were acutely aware of the danger of slipping back into increased protectionism and "beggar-thy-neighbour" policies. Events had also demonstrated that there was no substitute for a strengthening of global rules and disciplines in the trade field, given the degree of integration of financial and equity markets. The more frequent use of the GATT dispute settlement mechanism to deal with bilateral trade problems contrasted with the experience in previous rounds of GATT negotiations. He said that the dilemma was whether or not one could clearly distinguish between the "normal" functioning of the GATT and the Uruguay Round negotiations in the present set of circumstances. The General Agreement had not been "suspended" while the Round was going on; a contracting party had to have the right to recourse to Article XXIII, should it consider that any benefit was being nullified or impaired. Equally, the duty to implement panel recommendations should remain unambiguous.

In conclusion, he said that the increased confidence that had been demonstrated in the multilateral dispute settlement machinery of GATT was a positive sign; on the other hand, the fact that contracting parties were in the middle of the Uruguay Round negotiations caused concern with respect to the possible effects of dispute settlements on negotiating positions, in particular on issues which were high on the Round's agenda.

The representative of Hong Kong said that regarding trends in commercial policy as identified in the Secretariat document, there had been an increase in GATT activities, particularly in the dispute settlement area, while in the Uruguay Round, contracting parties had moved into the negotiating phase. It was important that work in these two fora should proceed independently, in particular that regular GATT work should not be modified on account of the Uruguay Round. While the increased use of dispute settlement arrangements would no doubt be taken as a welcome sign of confidence in the multilateral dispute settlement machinery, these proceedings at the same time continued to show some of the weaknesses in the existing mechanism for which, as the Secretariat had pointed out, long-term solutions could only be found in the Uruguay Round. This underlined the desirability of early results in this area of the negotiations.

The Secretariat document noted that there had been little or no decline in the use of production and export subsidies and that the trend was towards the enlargement of the scope of anti-dumping actions and the maintenance and extension of bilateral restraint agreements to deal with sectoral problems. Developments in the area of anti-dumping were particularly of note, or of regret, as this was leading to the use of voluntary export restraint or orderly marketing arrangements. Hong Kong noted all this with concern, as such developments were clearly not in the interests of a truly multilateral trading system. It was incumbent on contracting parties to reverse this trend, particularly as they had accepted as a fundamental of the Uruguay Round a commitment on standstill and rollback. While contracting parties were not precluded from pursuing their rights under the General Agreement, it was clearly not the intention of Ministers that recourse to the dispute settlement mechanism would be the norm in implementing the standstill and rollback commitment.

In conclusion, he said that Hong Kong had nothing to bring to the attention of the special Council by way of liberalization measures, as it was already the very model of a truly open economy. He was, however, encouraged by the measures reported by some of the previous speakers, which represented an important commitment to the multilateral trading system.

The representative of Canada said that in his delegation's view, a review of developments in the trade field should be an essential feature of an organization such as GATT, which was charged with maintaining and improving the framework for world trade. The discussion in the present meeting showed that there was still room for improvement in the procedures for such a discussion in GATT. The full potential that could be offered by

such a review had clearly not been realized. However, the discussion thus far had been valuable, which highlighted the importance of the process. Of particular importance were the statements by Yugoslavia, Nigeria, Singapore, Australia, Korea and Brazil describing important trade liberalization measures undertaken by their governments, which were rooted in efforts at domestic economic policy reform. Such information was very relevant to a review of developments in trade and was of particular importance in considering the course of the Uruguay Round, where it was heartening to learn that a number of countries had strong reasons for wanting to pursue those negotiations. His delegation found Korea's statement on a matter involving trade in services to be an interesting development.

He said that some consideration could be given to how to improve the special Council discussions. Paragraph 6 of the Secretariat document indicated the sort of limitations that existed regarding the tools available to the Secretariat in producing this document. It was also important to note that paragraph 7 made it clear that the document was to be read in conjunction with other GATT publications which were equally relevant to these discussions. In Canada's view, a number of the points revealed in the present discussion and highlighted in the document showed the relevance of ongoing work in GATT and the relevance of a review of this kind to the Uruguay Round negotiations, in the context of specific issues and of the general approach a number of countries were taking to economic and trade matters.

Regarding possible improvements in these discussions, he recalled that there were efforts going on in the Uruguay Round, particularly in the Negotiating Group on the Functioning of the GATT System, to look at the development of trade policy reviews which would be prepared on a more systematic basis and might provide a better basis for a discussion of this kind. However, it was clear that this sort of discussion was important in GATT and that it had begun to generate some momentum.

The representative of Turkey said that the quality of the Secretariat document had continued to improve. The "Observations" in paragraph 24 indicated that the problems confronting the trading system had remained and that efforts to resolve them had been unsuccessful. These were not new problems, and his delegation once again emphasized the need for urgent action by all contracting parties to put an end to them. This demanded political will and the readiness of governments, particularly those of the major trading nations, to act. GATT remained the most appropriate body to carry out the necessary measures, and the work underway in the Uruguay Round represented a rare opportunity.

As noted in the Secretariat document, the developing countries had continued their efforts toward structural adjustment despite unfavourable circumstances. Such adjustment involved difficult procedures, and steady economic growth was necessary to sustain them. No country could be isolated from the influence of the world economic situation, with all its inter-related elements. Turkey, which had undertaken far-reaching structural adjustment, had not hesitated to liberalize its external trade

and continued to sustain this policy. The most recent such measures adopted by Turkey were cited in paragraphs 322, 391 and 392 of the Secretariat document. In the course of the period under review, the number of imported products subject to prior authorization had been reduced to 33, and a considerable reduction of import duties had been effected.

The representative of Japan said that his delegation had always taken an active part in the special Council meetings, with a strong conviction that this review could play a unique and important rôle in the integrity of the GATT system. As the Secretariat document rightly observed (paragraph 24), the environment of world trade over the period of review had continued to be dominated, as in the past several years, by concern over payment imbalances, exchange rate uncertainties, problems of unemployment and slow growth in many industrialized countries, as well as the continuing debt-servicing difficulties of many developing countries. On the positive side, a number of countries had moved towards liberalizing their trade régimes, including the reduction of tariff rates and quantitative restrictions, as a means of restructuring their economies. However, the dominant tendency was persistent protectionism, including the use of production and export subsidies, extended application of anti-dumping measures, and resort to "grey-area" measures. Thus a sucessful outcome of the Uruguay Round was all the more strongly needed.

One of the prominent tendencies characterizing recent times, including the period under review, was the sharp increase in the number of GATT dispute settlement cases, and this in striking contrast to the situation during recent previous rounds. This could be regarded as an encouraging sign of confidence in the multilateral dispute settlement mechanism deriving from each contracting party's increased awareness of its GATT rights as well as concern for ensuring transparency in the settlement of disputes. On the other hand, the spirit of consultation, which was the basis of dispute settlement in GATT, might be suffering from this excessive resort to panels. A speedy and accurate interpretation of the relevant rules in the settlement of disputes was essential for the re-establishment of GATT's credibility. However, there were cases in which, under the present relevant GATT rules, there were ambiguities or where negotiations were expected in the Uruguay Round with a view to establishing new rules on the subject. In those cases it was debatable whether a straightforward resort to a panel really contributed to the settlement of the dispute and to the strengthening of the GATT dispute settlement system as such.

Japan welcomed the increased expectations on the part of many contracting parties with regard to the efficacy of the GATT dispute settlement mechanism. At the same time, his delegation stressed again the necessity of sufficient consultations between the disputants prior to resorting to a panel; this was essential to the credibility of GATT dispute settlement. This point deserved to be reflected on by all contracting parties.

Regarding the trend towards protectionism, he drew attention to an issue to which Japan attached great importance. On 22 June 1987, the European Community had adopted a new regulation which stipulated that for

the purpose of preventing the circumvention of anti-dumping duties on finished products, anti-dumping duties might also be applied under certain specified conditions to products assembled or produced in the Community using imported parts or materials. On 18 April 1988, the Community had imposed anti-dumping duties under that regulation on electric typewriters and scales of five Japanese-related companies. There were no specific provisions in either the General Agreement or the Anti-Dumping Code (BISD 26S/171) with respect to preventing the circumvention of anti-dumping duties, nor had there been any specific discussions on this issue in the Committee on Anti-Dumping Practices.

This was a new issue, and under such circumstances, measures to cope with circumvention should be established through multilateral negotiations and agreements. The Uruguay Round could provide an excellent opportunity for such negotiations. The Community's anti-dumping regulation presented fundamental problems in the light of the General Agreement and the Anti-Dumping Code, and could be qualified as a new protectionist measure masquerading as a measure to prevent the circumvention of anti-dumping duties. Japan had requested that the consistency of this measure with the General Agreement and with the Code be examined in another appropriate forum in GATT. His delegation underlined that if the Community's practices under the new regulation were to be permitted as a fait accompli, the credibility of GATT would be undermined. The measure was also inconsistent with the standstill commitment and therefore should be repealed or at least modified.

In the context of protectionism, Japan was concerned over the US Omnibus Trade Bill. The US President had recently vetoed the Bill which contained a number of protectionistic provisions, and Japan strongly hoped that the US Administration would continue to fight resolutely against protectionism and that the Bill would not become law.

Turning to bilateral and regional economic groupings in multilateral trade -- events such as the signing of the US-Canada Free Trade Agreement or developments in the unification of the European Common Market -- Japan wondered whether the phenomenal size of these integrated economies was what the founders of GATT had anticipated and hoped for. Japan appreciated that the participants of these groupings were doing their utmost to avoid the danger of regionalism and block economies, but at the same time, strongly believed that such groupings should continue in future to develop in conformity with internationally-agreed disciplines so as to be kept open to the outside world and thus contribute to the maintenance and development of the multilateral free trading system. From this point of view, enlargements of customs unions should be implemented in strict conformity with the provisions of Article XXIV. He reiterated Japan's view that the European Community's arbitrary interpretation of Article XXIV:6 -- according to which customs unions were entitled to ask for "reverse compensatory adjustment" from third countries in case the general incidence of tariff levels was reduced at the formation of customs unions -- was totally unacceptable.

Japan was convinced that in order to remedy effectively the instability of the world economy, joint efforts for economic structural arrangements should be made world-wide. With this in mind, and with the hope of contributing to the international community by strengthening its economic structural arrangements, his Government had adopted on 23 May a New Economic Plan for the coming 5 years. In line with the basic position taken by the "Maekawa Report", the new economic plan set a key policy guideline of shifting to and consolidating "economic growth by encouraging domestic demand" in order to achieve its first major goal, which was "to redress the large external imbalances and to contribute to world prosperity". The plan also called for various deregulation measures to stimulate private sector activities as well as Japan's contributions in such fields as Official Development Assistance (ODA), cultural exchanges, and science and technology. On 14 June the Government had adopted by cabinet decision its Fourth Medium-Term Target of ODA.

The representative of Poland said that his delegation attached particular importance to the deliberations on trade policy, including trade measures which were the most sensitive problems in international trade. The interdependence of trade, finance and monetary issues was of global character and its impact could in no way be limited to one group of countries. Trade policy was only one of the factors determining the trading environment. There were others, such as monetary and financial factors, to mention the most important, and all should duly be taken into account in discussing the trading system as such. While the Secretariat document had mentioned these factors, it could be profitable for the Council's deliberations to highlight the question of interdependence.

As the document pointed out, quantitative restrictions were applied by some countries in a more restrictive manner to Poland than to other contracting parties. Needless to say, Poland judged this to be contradictory to the provisions of GATT.

His delegation also wanted to provide some broad information about Poland, whose economic system was undergoing substantial changes. Its economic plans were of an independent character, and the figures on foreign trade in those plans (paragraph 576) were no longer obligatory for companies engaged in foreign trade activities. These figures simply indicated the Government's intentions, and all decisions were taken at the company level. As a result of this demonopolization process in the Polish foreign trade sector, more than 1,000 enterprises and companies, including 560 private firms and individuals, had been granted a concession to conduct foreign trade operations directly, and the number was growing. The right to engage directly in foreign trade activities had been further liberalized in December 1987, with a decree which established a list of products for which export and import transactions could be concluded directly by any company or individual without the requirement of a concession and exclusively on the basis of automatic registration.

The representative of Colombia confirmed that, as indicated in the Secretariat document, his country had reduced duties and had removed certain quantitative restrictions. Since 21 April 1988 there had been an

additional tariff change which covered a total of 199 tariff headings, of which there were reductions for 159. His delegation hoped that the Council would take note of this trend toward full liberalization which Colombia had been continuing, and that these facts would be taken fully into account in the context of the Uruguay Round negotiations.

The representative of Chile said that what had most struck his delegation in this meeting was the discrepancy between the rhetoric, on the one hand, and the practice according to what was stated in the Secretariat document, on the other. The Punta del Este Declaration had recognized the importance of surveillance both for the standstill and rollback commitments and for the functioning of the GATT system, and it was in that spirit that he would make his comments.

One could come to the conclusion from reading the Secretariat document that there seemed to have been an unfavourable development in world trade policies subsequent to the launching of the Uruguay Round. Protectionism had increased, subsidies had continued, non-tariff and grey-area measures had been implemented, and there had been discriminatory application, including to Chile, of the GSP. He said that the developing countries had been most affected by these measures, and quoted from several paragraphs in the document which, in his opinion, confirmed this, notably paragraph 9, regarding competitive export subsidization and paragraph 11, regarding the number of agricultural disputes in GATT during the period reviewed. The latter seemed to indicate that the methods employed might not have been as effective as anticipated in making countries comply with their GATT obligations. Paragraphs 12, 20, 350 and 454 indicated an increase in the number of quantitative restrictions and non-tariff measures, and the maintenance of voluntary restraint agreements. Regarding countertrade (paragraph 514), estimated at between 8 and 20 per cent of world trade, he urged the Secretariat to continue to investigate this subject in greater detail, with a view to identifying the causes of this trend and its possible relationship to protectionism. He drew attention to references to specific agricultural restrictions; paragraph 36 on the Cairns Group stated that in the context of agricultural trade problems and policy reform, "there was a significant gap between rhetoric and practice".

He said that many of the current trade problems had to do with the relationship between finance and trade -- particularly for the developing countries -- which had been mentioned in the Uruguay Round and in GATT meetings but had never been fully explored. He referred to paragraph 637 of the Secretariat document which gave the World Bank's views on this subject.

In conclusion, he said that reading the Secretariat document had led him to conclude that if there were a world economic crisis the next day -- a crisis which could have a serious impact on the relations between developed and developing countries -- it could not be claimed that there had been no warning. A host of international organizations and institutions had issued documents which carried the warning that the problems of trade and finance had to be approached seriously and studied carefully. Chile would cooperate as fully as possible in this exercise.

The representative of Cuba said that the Secretariat document was useful not only for the discussion in the present meeting but also as a reference document to send to capitals. It was Cuba's view that many countries had not fulfilled the commitments undertaken in Punta del Este. Her delegation agreed with the document that there was a prevailing trade imbalance, and that a situation unfavourable to the developing countries and to their efforts to service their debts had continued. It had already been recognized that there was a link between the monetary and financial spheres and the trade area. One such example was the difficulty for developing countries to obtain foreign currency from their exports when those exports came up against obstacles to access. Therefore, those countries' debts continued to increase. Paragraph 24(vi) of the Secretariat document, regarding the limitations affecting traditional manufacturing industries, clearly demonstrated this point.

One important aspect for the developing countries was the GSP (paragraph 16); the minor improvements that had been introduced in certain areas had in fact been undermined by newer elements that ran counter to the CONTRACTING PARTIES' 1971 Decision (BISD 18S/24). Certain preferential margins had been eroded due to agreements and commitments entered into by the major donor countries. Regarding agriculture, Cuba agreed with those countries which had drawn attention to the negative impact of the application of subsidies. These practices had been highly detrimental to those countries which depended on their exports of agricultural products. In Cuba's view, the Secretariat document accurately reflected the existing situation in international trade.

In conclusion, her delegation wanted to flag the fact that if contracting parties did not respect their Uruguay Round commitments, the trading environment itself removed any credibility of the efforts made in GATT.

The representative of the United States said that it was good to see how many delegations shared the US view that this should be a serious exercise. However, the question had to be asked whether it was worth it. While statements regarding trade liberalization were welcome, his delegation wondered if this meeting was the place where this should be done. As the Community had said, this was an experimental exercise, and thus, such questions should be asked. Comments had been made on a variety of aspects of the international economic scene, but many of these had not been related to the international trade scene. It was important to make clear what this exercise was.

Regarding the nature of the major portion of the Secretariat document, he said that it often looked as though the compilation of information was rather eclectic, and that information was sometimes included simply because it was available, rather than important to the analysis. With the exception of the Overview section, the document seemed to have no theme at all, and was almost like an encyclopoedia. He also questioned the length of the document and asked if there could not be better synthesis of the information available. His authorities had read the document but wondered whether they had not wasted time in doing so. His delegation had some

concerns about paragraphs relating to US trade developments, and would communicate those directly to the Secretariat. The United States felt that some better criteria needed to be established regarding what was reported. There should be much more emphasis on major developments.

In addition, the United States strongly disagreed with the document's emphasis on prospective developments in the trading system. A development was not a development until it had happened; to the extent that a document such as this had become prospective, it was not useful. This touched on the question of balance in the document. For example, in the US system in any given year there were numerous pieces of proposed legislation which would never, and were never even intended to, become law. There was a tendency on the Secretariat's part to report those draft pieces of legislation that were protectionist, but to ignore those which were trade-liberalizing.

Regarding Japan's comment on the dispute settlement system, all should look at this with great care as a major statement of trade policy and trade behaviour on the part of Japan. The United States was concerned that the basic gist of that comment seemed to be an encouragement for more bilateral consultations, and this at a time when everyone was urging that there be fewer bilateral, and more multilateral, actions. Those countries who were sometimes forced to pursue some of their legitimate trade interests in areas that were not yet appropriately covered by GATT understandings were accused of bilateralism, and of poisoning the political atmosphere. In the US view, the best way to avoid the latter would be to rely more on the multilateral framework: that was precisely what the dispute settlement process offered. His delegation shared Canada's statement that the increase in dispute settlement cases was a sign of health of the multilateral system. His delegation urged Japan, which was the loudest spokesman against bilateralism, to view the multilateral mechanism as an important vehicle to reduce the political tone of some of these disputes.

His delegation also regretted the fact that Japan continued to feel that the US Omnibus Trade Bill, which was non-existent at the present time, was protectionist in its latest form. The United States questioned that view. Yugoslavia had said the Secretariat document indicated that the impetus for trade liberalization came from developing countries. Were that to be the impression given by the document, it was badly written, because the United States did not believe that this was the case at all.

In conclusion, he said that much time and effort had gone into preparing, reading and making corrections to the document, and wondered whether this was a good use of the Secretariat's and delegations' resources. He repeated that the exercise was an experimental one and therefore had continuously to be re-examined, and asked again if this exercise was worth it.

The representative of India said that his delegation wished to respond to the United States, and to place this exercise, which had been experimental since 1980, in the proper context. He drew attention to the introductory section of the Secretariat document which tried to put the

special Council's work and the rôle of the document in a certain perspective. Comments on the document had been intended to guide the Secretariat in its future efforts, as this document was merely a vehicle for contracting parties' own joint endeavour to take stock of developments in the trading system. Whatever shortcomings there were in this exercise could be attributed more to contracting parties themselves than to the Secretariat, which had always been willing to accommodate India's specific comments and suggestions at every stage of its effort.

The introduction to the document underscored the fact that this was an evolving exercise, and pointed to the relationship of work in the special Council to the question of improving surveillance of the multilateral trading system in the Uruguay Round -- a direct reference to the Negotiating Group on the Functioning of the GATT System (FOGS Group) on which many contracting parties, including the United States, had placed great importance. One of the points that had emerged in that Group was that factors which had a significant impact on the multilateral trading system had to be considered in order to have an appropriate overview. India saw the Overview in the Secretariat document as precisely the kind needed to supplement the country-specific review of trade policies and practices currently being envisaged in the FOGS Group. The United States had commented on the length of the Secretariat document; this would be nothing compared to the size of the country-specific reviews envisaged by the FOGS Group, the practical implications of which had not been thought through.

Turning to the number of legislative proposals in the US Congress, he drew attention to paragraph 7(i) of the 1982 Ministerial Declaration to which reference had been made in the introduction to the Secretariat document. It was not beyond the purview and scope of the special Council's work that the document should take into account the various pieces of legislation that were being put forward in the United States. The Community's regulation regarding circumvention had also been mentioned in the document. The Secretariat, however, did not have the resources to produce an analysis of the impact of these prospective measures. The central theme of the document was a review of developments in the trading system, for which there was no single common theme. The Overview section indicated that there were mixed signals; a greater degree of political commitment to withstand protectionist pressures should have been shown following the launching of the Uruguay Round, but bilateral and grey-area measures had proliferated. The Secretariat document, once corrected and published, represented an authoritative review of developments over every six-month period, which was useful to the outside world. That was one of the aims of the document; the special Council exercise was intended to reinforce the so-called early-warning system, and its importance in this context had been recognized. In India's view, there was no better forum in the GATT to discuss the issues raised in the Secretariat document, and it was for contracting parties to make what they would of this exercise. The Secretariat should not be taken to task for bringing specific trade developments or measures to contracting parties' attention.

The representative of the European Communities said that the day would come when contracting parties would make their own contribution, i.e., would have made available and assessed the information necessary, without the Secretariat having to do it. That was the purpose of the exercise, but thus far, contracting parties had been unable to do this and had hesitated to jump into the exercise, thus putting the Secretariat in a vulnerable position. The Community challenged India's statement that the special Council meetings had been held on an experimental basis for eight years, as this had been the case only since the most recent special Council meeting at which the Secretariat had been asked to make, on its own responsibility, a brief summary and observations. The experiment had just begun, and the Secretariat should be asked to continue it. If there were problems in the document, the fault lay with delegations; in any event, the purpose of the document and of these meetings was not for contracting parties to defend individual national interests but to work in a collective spirit. The point was to try to remain at the level of collective assessment: why was the trading system not working? This could be because those responsible for trade policy -- ministers, traders, bureaucrats, diplomats -- were all conditioned by something totally different. Sometimes a policy-maker would have to resort to protectionist measures because it was impossible to do anything else, because a situation was imposed by an exchange rate, because a budget deficit imposed a given policy. As long as those working in trade policy did not want to admit that aspect, all their efforts would be in vain, whether or not there were Uruguay Round negotiations. Particular trade problems were minor and unimportant in view of the overall challenge that had to be met. When the level of debate was raised above these particular problems and the settling of scores among contracting parties, then the overall exercise would be working towards its goals.

In this particular context, surveillance should be aimed at understanding why a given policy existed, and as long as this was not understood, those working in trade policy, including ministers, would have understood nothing. The experiment in the special Council meetings had to continue, as this had been decided; if not, the Community would not be satisfied. However, as long as this exercise was in an experimental stage, and as long as it was not better understood and accepted, the experimental part of the document should not be made public.

The representative of the United States said that in his delegation's view, the current draft of the Secretariat document emphasized trees rather than the forest; he agreed with the Community that perhaps more attention needed to be given to the forest. It was important to look at what was going on in the world economy at large; eight months earlier there had been fear of a world recession, while today, the world economy was relatively strong. One of the messages likely to come out of the forthcoming summit meeting in Toronto was the strength of that economy and of the world trading system. That did not come through in the Secretariat document, and to the extent that it did not, the document overall was quite misleading and, in the US view, harmful to the trading system and to efforts in GATT to sustain it. The Community's suggestion that capitals take this exercise more seriously in order to review the system itself and not pieces of the system was a good one. His delegation could agree to the

Community's suggestion that the exercise be kept in-house and that the document not be made public, particularly given the state of the current draft.

The Director-General said that he wanted to comment on three points: first, the Secretariat document; second, the debate in terms of some of its substantive aspects; and third, what he would call the ideas or lessons which could perhaps be drawn from this discussion.

As to the first point, he drew attention to the last sentence of paragraph 6 which stated that responsibility for the document remained that of the Secretariat. He wanted to confirm that the Secretariat took that responsibility. He added that the Secretariat had never considered that it had the right answer to what was needed for a fruitful surveillance of the trading system in the Council. The Secretariat had been moving step-by-step, listening very carefully to the comments made, and had tried to do its best. Perhaps it had been overly cautious -- for example, the "Introduction" sections of the present and of the most recent reports were more or less the same. A quick look at some of the aspects of the origin of the document might indicate some questions which should be discussed together to see if the approach was the right one, or if it should be modified. For example, he had great sympathy with comments which had been made regarding a dividing line between prospective and effective action in the trade policy field. Paragraph 7(i) of the 1982 Ministerial Declaration, which was part of the basis of the special Council's work, said that contracting parties should make determined efforts to ensure that trade policies and measures were consistent with GATT principles and rules in implementing national trade policy and in proposing legislation. Its next sentence read, "and also to refrain from taking or maintaining any measures which would limit or distort international trade". There was a possible interpretation of this text according to which contracting parties should not only look at what had happened but also at what could happen; but he agreed that the distinction was difficult to make, as the present debate had shown. However, this question was worth examining in more detail.

His second point also related to paragraph 6 of the document, which indicated that the Secretariat had asked for help from delegations in order to produce as complete a document as possible, but that the document was not and could not reasonably aspire to be exhaustive. Some representatives had said that the document was too long or too detailed, or that it should be streamlined, or that it should distinguish more clearly between what was important and what was not. In order to improve the process, one had to ask about the nature of the information necessary. Transparency meant having as much information available as possible, but he agreed that for the purpose of these meetings, or of these activities, perhaps a better definition was needed of what should be covered under the notion of transparency.

Contracting parties had to begin to try to make a certain analytical effort. Here again it was a very subjective determination as to how far the analysis and the comments on the respective measures had to be taken.

e asked the Council to let the Secretariat go on taking risks even if this then drew criticism. Sometimes such criticism was useful for the debate because it pushed delegations to express views which, from his point of view, were useful for the general debate. It had also come out of the discussion that this document was very much related to an analysis and overview of very specific trade policy developments, and the point had been made that this had prevented the debate from going into inter-relationships in the wider economic context. The Secretariat was aware of this, and because it shared this view to a certain extent, paragraph 7 of the document indicated that the review should be read taking into account other GATT publications. Concretely, this meant that the Secretariat had to give some thought to the relationship to be established between the annual reports published under the responsibility of the GATT Secretariat, and the present exercise.

Of course, any document could be improved in terms of its editing and structure. The document which was the basis of the present discussion had a section called "Overview of Developments" where for the first time -- and this was the difference from the previous documents -- an effort had been made to summarize the text in Sectoral Developments, Regional Developments, Tariffs, GSP, Quantitative Restrictions, Subsidies. In such a summary, some of the nuances in the main part of the text had disappeared. This had perhaps exaggerated, or brought to light, some valid questions in relation to the present division into trade-area chapters. On this point also, improvements were certainly possible.

Regarding the discussion the document had provoked, he said that he was not too disappointed. He was not saying that because the debate had been in some respects a very useful and interesting one, the Secretariat should continue to produce the document along the same lines. What had appeared to him to be one of the problems of the discussion was that comments had been made from different angles in terms of what the surveillance activities of the Council should be. There had been statements related to the policies of specific countries, comments about the document itself, and statements which tried to put the whole exercise in a wider context and, in particular, tried to encourage the examination of developments in the trade policy area in a more global way. There had not been, however, what was aimed at -- a focussed debate on a certain number of specific questions. He would propose that one of the conclusions of the present discussion should be that contracting parties had to renew their efforts prior to the meeting in order to look perhaps not only at the presentation of the document but in particular, to try to agree to have one or several specific themes on which all delegations would like to focus. Further efforts had to be made in these directions.

His third point related to the lessons that could be drawn from this discussion. He referred to the motto that "practice makes perfect" regarding improvements in the proceedings and finding the right way to carry out this very important surveillance activity. In conclusion, he said that what had struck him was that very minor changes in the approach between the previous and the present documents, which looked very similar in their structure and which were based on the same approach, had provoked

a very interesting discussion on some of the key questions regarding how to improve the nature of the documentation put at the Council's disposal in order for it to carry out in a constructive way its surveillance activities.

He then turned to his report on the Status of Work in Panels in document C/156. Representatives would have been struck by two developments in the area of dispute settlement during the past six months. The first was the large number of panels that had been established by the Council since November 1987, more than in any previous six-month period. The second striking development was the rise in delays in determining the composition and drawing up the terms of reference for the panels.

According to the 1979 Understanding, a panel should be constituted as promptly as possible and normally not later than thirty days from the Council's decision. In order to ensure a more effective compliance with this rule, the CONTRACTING PARTIES had in their 1982 Ministerial Declaration (BISD 29S/14) instructed him to inform the Council of any case in which it had not been possible to meet the time-limits for the establishment of a panel. Since then, 27 panels had been established, and he had been obliged to report delays in the constitution of 18 of them. The 30-day rule had thus been observed in only one-third of the cases and during the past six months, had not been met at all. His overall impression was that considerable progress had been made in recent years in speeding up panel proceedings, but that efforts were still needed to accelerate the constitution of panels.

There was a certain number of areas where cooperative efforts were needed to help both the Council and the Secretariat to improve their output and efficiency. While there were frequent calls for adjustments in the world economy, he suggested that efforts be made to make certain adjustments in the panel proceedings.

The representative of Canada said that his delegation, too, had noted that within the past six months, not one panel had been constituted within the 30-day period guideline. Canada was concerned that this was not a healthy trend and hoped that it could be remedied in the future. As noted in document C/W/557, which his delegation had requested at the May Council meeting, there had been a rapid increase in recourse to Article XXIII:2: two requests in 1983, three in 1984, four in 1985, three in 1986, and then nine in 1987, and 13 so far in the first six months of 1988.

This prompted the question as to why there had been such an increase, and also as to what extent contracting parties and the existing system could cope effectively with this rapidly increasing demand for panels. A number of countries had expressed the view that this was due in part to an increase in protectionism and protectionist pressures. However, it was Canada's impression that in a considerable number of these cases, the subject of the complaint was often a measure of long-standing duration and even pre-dated the GATT accession of the contracting party involved. This was certainly true of two recent panels in which Canada had been the party complained against.

It was also interesting to look at which countries had taken recourse to Article XXIII:2 in the period since 1 January 1983. The United States had taken such recourse thirteen times, the Community seven, Canada five, New Zealand three, Australia and Nicaragua two, and one each Finland, Argentina, Mexico, Chile and South Africa. This raised the question of why more developing countries had not taken recourse to Article XXIII:2, as it seemed that when they had done so, the result had been satisfactory to them.

It had been suggested that there had been increasing resort to dispute settlement for items that were high on the Uruguay Round agenda, and that perhaps this was not a helpful trend. However, contracting parties had to ask themselves what they were doing in the Uruguay Round and what the purpose of the dispute settlement system was. In his delegation's view, it did not make sense to start trying to improve the rules, develop improved disciplines, and make further progress in the move towards a more open and stable trading system without having a good idea of where the starting point was.

In a number of cases, complaints had been brought before the CONTRACTING PARTIES because a particular industry or sector of the economy was concerned about another country's practice, and certain damage had been done to its interests. That was perhaps the most common reason for complaints being raised. However, in considering these complaints, governments realized that there was another dimension involved, which was trying to determine what the existing rules were, and this was of relevance as contracting parties were engaged in a major round of trade negotiations. Until a country was engaged in that process, it was not always clear what the implications of GATT disciplines were for certain practices, policies and measures which countries had in effect. In trade negotiations, the question of payment inevitably arose; in that context, countries perhaps wanted to be certain that they were not paying for the removal of measures which might be inconsistent with GATT. This touched on the subject of the rollback commitment.

The representative of the European Communities said that the Community was in favour of a proper utilization of the dispute settlement procedure. Paragraph 24(iv) of the Secretariat document contained some interesting comments on dispute settlement which were rather timid and could probably be made more forceful. He wanted to "take off his Community hat" and to make the following comments as an observer. The GATT institution had a unique mechanism in the dispute settlement system, and contracting parties had to be very careful in spending this precious capital. Since the very outset, that mechanism had remained essentially unchanged except for contracting parties' varying perceptions of it. It had been conceived in order to dispel and control bilateral or plurilateral trade tensions: to settle disputes, often to re-establish a balance which had been lost, and to clarify existing rules governing existing rights and obligations. GATT had survived, despite financial, monetary and economic storms, because it was the only forum in the world where countries could at least try to find a solution when disputes arose. Consequently, the dispute settlement mechanism was perhaps one of the very best armours contracting parties

could have; it was not to be under- or over-estimated, and contracting parties should be careful how they used this very precious and unique mechanism.

However, the instrument had been somewhat adjusted in the course of its use because of the differing perceptions of those using it. There had been an increasing trust placed in the dispute settlement procedure, a recognition that it could be increasingly used to solve problems. Nevertheless, the instrument did have certain limitations, and these had led to certain misunderstandings among contracting parties. For example, contracting parties were all sovereign entities. How could they, therefore, reconcile national sovereignty with international obligations when there was a conflict between these two? There had been a systematic and far too automatic -- perhaps even thoughtless -- utilization of the dispute settlement mechanism. For example, the constitutional law of many countries included the concept of judicial self-restraint with regard to the exercise of the power of the courts to resolve conflicts within the system. This concept was also of relevance at the international level. Sovereignty implied a certain degree of discretion which should of course exclude arbitrariness.

Furthermore, there was something well-known in GATT called "wrong cases", cases which could not be solved simply through the quasi-judicial system of dispute settlement mechanisms, but only by compromise or through negotiation. These could be called "political cases", where the sovereignty of states was involved and where there was a certain degree of irrationality, or where the vital interests of the party involved were affected. Going beyond these limits had led to a somewhat systematic use of dispute settlement procedures in order to improve negotiating positions without taking account of the possible fall-out of such actions. There were risks and repercussions in the utilization of dispute settlement procedures; it was not a mechanical operation, and should not be resorted to thoughtlessly.

He said that it would not be a good idea to set aside the fundamental principle underlying this institution, which was consensus. But consensus did not in any way mean that each contracting party had the sovereign and absolute right to block a decision when it so chose. Consensus should be used at the collective level, meaning that the CONTRACTING PARTIES as a whole, as a group, should take into consideration and respect the vital interests of the contracting party concerned. In exchange, that contracting party should not misuse its rights at the procedural level and should not raise obstacles to the procedure.

In conclusion, he said that each contracting party had a dual responsibility and at two levels -- that of protecting national interests and, at a higher level, a collective interest -- and he asked how national interests could be reconciled with the indispensable protection of the multilateral system. If that collective interest were undermined or jeopardized, there would be no national interests left to defend. There was an indissoluble solidarity between national interests and the

collective interest. Speaking "with his Community hat on", he said that the dispute settlement system had to be strengthened rather than weakened, and that it should be used wisely rather than abused.

The representative of the United States said that his delegation believed that the increase in dispute settlement panels was a sign of health of the multilateral system, and encouraged an expeditious treatment of all panels, including those brought by and against the United States. His delegation agreed with the Director-General's concerns over the delays that had occurred at one stage or another of the panel process. An important part of the credibility of the system was the dispute settlement process, and an important part of the credibility of that process was that there not be delays, either before or after the decision to establish a panel. There seemed to be an unwritten rule that on the occasion of the third request, a panel would be agreed to. Perhaps the rule should be changed to agreement at the second request.

His delegation agreed with the Community's warning that the system not be misused, but misuse had to be interpreted correctly; contracting parties should not sleep on their rights, and it was important to remember that nothing in the Punta del Este Declaration had ever been intended to withdraw any rights from any contracting parties. Thus his delegation found it somewhat incongruous to hear a charge -- precisely because some contracting parties had exercised their GATT rights -- that they might be trying to improve their positions in the Uruguay Round negotiations. That was contradictory, and was a threat to smaller contracting parties. The only risk that should be involved was that of losing the case. In the US view, the multilateral system was helped by the dispute settlement system, and threats to it were not helpful.

The representative of Mexico said that another aspect of crucial importance in the dispute settlement process was the problem of the implementation of panels' recommendations.

The representative of Jamaica said that the Secretariat document was of continuing importance to his authorities as it dealt with microeconomic policies or structural adjustment. He asked if the document would be published. His authorities expected to have at least one full year's review of developments in the trading system, and it would seem to be within the Council's mandate to publish it.

The Director-General said that there was a decision by the Council that these documents would be published, but only after corrections and amendments had been made by delegations to the version before the Council.

The representative of Jamaica expressed his delegation's hope that what the Secretariat took account of in making corrections and amendments would not vary too widely from what was in the version of the document currently before the Council.

The representative of the United States urged that the Secretariat's Head of Informaton make it clear, as some members of the press already had a copy of the current version of the document, that this was not a final version.

The Chairman said that in his view, the Secretariat had made a serious and exhaustive effort to put before contracting parties a picture of the trading world as it had evolved over the past six months. In any document of this nature, there was bound to be something missing. Unless and until all of the varied developments covered in the document were accompanied by a sound management of international monetary liquidity, the problems in the trade field would continue for another 100 years. In response to Jamaica's question, he said that the document would be completed in the usual manner.

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

The representative of the European Communities said that there were two parts to the Secretariat document. One was traditional, with contributions from various contracting parties; the second was experimental, and this section took the form of observations. This part should be protected so as not to stifle it at the experimental stage, and it was for that reason that the Community had asked that the observations section not be published, while the experiment was being filled out and made more convincing.

The Director-General said he had understood that the Community had found the observations section very timid. If this was why the Community did not want this section to be published, he was prepared to make it stronger, since the text was issued on the Secretariat's responsibility. He did not want this matter to become complicated, and asked the Community to indicate what it wanted in this respect.

The representative of the European Communities said that the Community's approach should not be misinterpreted. He had said that this was an experiment, and while the Community had thought the document observations to be timid and shy, other contracting parties had thought otherwise. As he was at the second level of collective responsibility and was concerned to protect this experiment from being nipped in the bud, he suggested that contracting parties calmly test and improve the experiment before the document was published. The corrected document could be released, but the observations section held back until it had been improved. If all agreed that the entire document should be published, the Community would not block that, but the experiment had given rise to certain controversial reactions, as, for example, from the United States.

The Chairman said that it was up to the Council to decide what kind of responsibility the Secretariat should be allowed to exercise. In his view, it would be a pity not to allow to go forward a useful and constructive process of getting a focus on the exercise undertaken in the special Council.

The representative of Peru said that in his delegation's view, the Secretariat document was very complete and a valuable tool in monitoring the trading system, and Peru encouraged the Secretariat to move ahead in its efforts to make improvements in it. As the document showed, the trend toward protectionism and financial and monetary imbalances had continued, with the resultant trend toward bilateralism, grey-area measures, and the use of subsidies and compensatory rights as instruments of trade pressure. Peru was also concerned that the GSP, which was of increasing importance to developing countries' exports, had been fundamentally changed by the application of more restrictive criteria and the exclusion of some beneficiaries. Such an atmosphere was not an appropriate framework for progress and success in the Uruguay Round negotiations. This was in contrast to the trade-liberalization programs adopted by some developing countries, which was a positive step forward and should be stressed.

The Director-General said that if it appeared that paragraph 24 was a source of difficulty and would create a problem in terms of derestricting the document, he would not insist on keeping it. However, he wanted to make the point that the only difference between the document prepared for the previous meeting and the current one was that the section entitled "Observations" had previously been included in the more general section called "Overview of Developments". Since this was a document under the Secretariat's responsibility, he was prepared to delete this paragraph for reasons of simplification prior to publication, but was not prepared to consider that in the future, these documents should not contain some observations by the Secretariat.

The representative of Argentina said that trends in international trade should not be confused with a report on developments in trade policy. International trade was increasing in spite of the enormous difficulties which were recorded in the Secretariat document. The document's summary was most sound, and its observations were leading to fresh ideas in the special Council meetings. The document was an innovative instrument and should be continued; it would be a dangerous precedent to prevent it from being published. The tradition of the special Council meetings should be preserved, and above all, the document should contain every possible observation regarding the functioning of trade policies in the various sectors covered. It was important to draw attention to the need to bear in mind the overall nature of the information on the development of international trade, including its positive aspects and the problems to be faced if the trading system was to continue to grow. The document's observations were made for contracting parties to think about and to respond to, both in terms of normal GATT activities and in terms of multilateral negotiations. This was the usefulness of the exercise and of the document, the circulation of which should not in any way be restricted.

The representative of Australia said he understood that the Council had decided at an earlier meeting that the documents prepared for the special Council meetings would be derestricted as a matter of course following the consideration by the Secretariat of comments from delegations. He asked for clarification on this point. Were that to be

the case, he assumed that a decision by the Council would be necessary to change that decision, which would require consensus. His delegation saw no need to do so, and thus the document's publication would be in the Secretariat's hands. Australia urged the Director-General, on behalf of those contracting parties prepared to see the Secretariat exercise its judgement, to exercise the opportunity given him by the Council to present a document in his own right, and if he felt that paragraph 24 was sound, to leave it. This would be in the interest of the system and of the Secretariat. He would urge the Director-General to make changes only on the basis of substantive comments at the present meeting, but not to make any structural changes simply because one or another delegation did not like the content.

The representative of India said that this discussion had been more a review of the document rather than of the developments it covered, and that this was unprecedented in the special Council meetings. His delegation had heard nothing in the present discussion to support the view that there was anything objectionable, inaccurate or imbalanced in paragraph 24 of the document. The form of the discussion was proof of serious differences that continued to persist over the rôle of surveillance by the CONTRACTING PARTIES, which had also been evident in the FOGS Group. Contracting parties should take note of those differences.

The representative of Jamaica said he understood that there was a consensus to continue with the usual practice of publishing the document with any factual corrections, and to include its observations section.

The Chairman said that taking into account the Council's previous decision on the procedure regarding the Secretariat document, the Council would follow its established procedures in this regard.

The Council took note of the statements.