

## WTO begins study of "new issues"

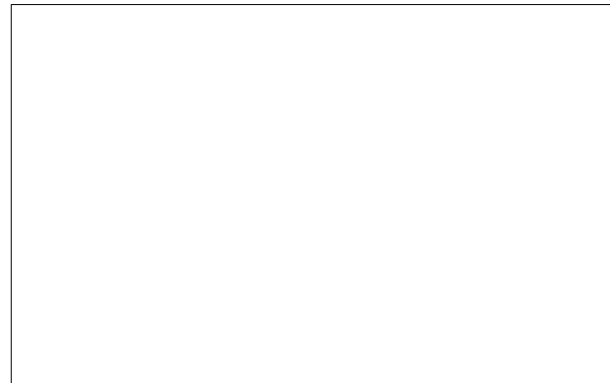
The WTO has launched work on the so-called "new issues". The Working Groups on the Relationship between Trade and Investment and on the Interaction between Trade and Competition Policy held their first meetings on 2-3 June and 7-8 July, respectively. On 21 July, the Working Group on Transparency in Government Procurement completed its second session while the Council for Trade in Goods continued discussions on "trade facilitation".

The initial meetings of the Working Groups have been marked by the submission of many discussion papers from delegations, extensive presentations by a number of organizations, and agreement on programmes of work.

The first WTO Ministerial Meeting, held in Singapore in December 1996, established the three Working Groups above and directed the Council for Trade in Goods to conduct exploratory and analytical work on the simplification of trade procedures.

The Ministers agreed that work on the new subjects would be a process of study and analysis, including a survey of activities in other international organizations. In the area of government procurement, the mandate is also "to develop elements for inclusion in an appropriate agreement."

Regarding the Working Groups on investment and on competition policy, the General Council will determine,



*WTO Director-General Renato Ruggiero (centre) shares a toast with Amb. Wu Jianmin (China), Amb. R.M.J. Lyne (United Kingdom) and Mr. Stuart Harbinson (Permanent Representative of Hong Kong, China) at a Geneva reception on 30 June marking the handover of Hong Kong, China. (T. Tang)*

after two years, how the work of each body should proceed. The Singapore Ministerial Declaration provides that future negotiations regarding multilateral disciplines in these two areas would take place only after a clear consensus decision by members. (See articles on pages 2-5.) □

### Next WTO Ministerial on 18-20 May 1998

**The second WTO Ministerial Conference and a meeting to commemorate the 50th anniversary of the multilateral trading system will be held on 18-20 May 1998. This was agreed at the General Council meeting held on 30 June-1 July. The first WTO Ministerial in Singapore had agreed that the next Conference would be held in Geneva and that preparations would be undertaken by the General Council.**

At the General Council meeting on 16 July, Director-General Renato Ruggiero reported that in his contacts in and outside Geneva with some 40 governments, he had detected support for keeping the Conference and the 50th anniversary commemoration "short and simple". He said there was preference for holding a two-day event that would conclude with the anniversary celebration.

#### *Holy See granted observer status*

The General Council, on 16 July, granted the Holy See's request for observer status. In its request, the Holy See said that while it was an independent customs territory, the insignificant size of its trade did not warrant accession to the WTO. As with its participation in other organizations, its main interest in the WTO was to help in the furtherance of peace, justice, progress and solidarity among nations.

*Continued on page 16*

## The growing impact of investment on trade

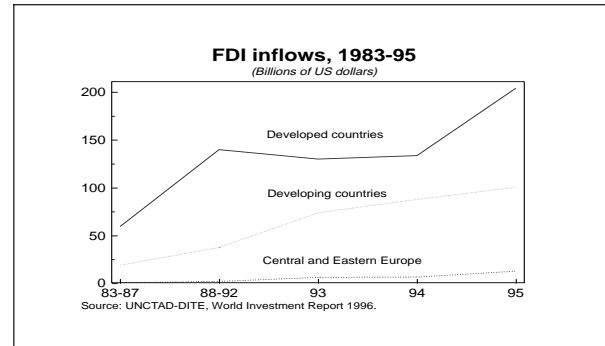
The significant rise in foreign direct investment flows and their evident impact on trade and national policies require close study by the WTO. This was the view expressed by many delegations at the first meeting of the Working Group on the Relationship between Trade and Investment held on 2-3 June.

Many delegations underlined the educational nature of the work of the Group in its mandate contained in the Singapore Ministerial Declaration, and the need for a balanced and comprehensive process without any preconceptions regarding possible future work. They also emphasized that the development dimension was a core element that should inform the work of the Group.

It was pointed out in the discussions that there was growing inseparability of trade and investment decisions of businesses as shown by the substantial share of intra-firm transactions in world trade. Foreign direct investments were aimed not only at gaining local market share but also at benefitting from lower production costs. This closer integration of trade and investment called for greater coherence in both national trade and investment policies and international trade and investment arrangements.

The Working Group heard extensive presentations by international agencies on their work in this area.

- » UNCTAD said that since 1993, it had served as the focal point in the UN system for all matters related to FDI and transnational corporations (TNCs). It serves as the secretariat to the Commission on Investment, Technology and Related Financial Issues, which meets annually to discuss matters related to FDI and TNCs. UNCTAD publishes the annual *World Investment Report*.
- » The OECD said that the 1995 OECD Ministerial Meet-



ing launched negotiations on a Multilateral Agreement on Investment (MAI)—also open on non-OECD members—aimed at setting high standards on investment protection, investment liberalization and dispute settlement. It added that the OECD Ministers in May 1997 expressed their determination to conclude the agreement in time for their meeting next year.

- » The World Bank described its activities and programmes supporting private investment in developing countries, including the International Finance Corporation, the Multilateral Investment Guarantee Agency, the Foreign Investment Advisory Service, the International Centre for Settlement of Investment Disputes, the World Bank Investment Guarantee Programme and the Initiative on Private Investment in Infrastructure.

At the close of the meeting, the Chairman, Ambassador Krikk-Krai Jirapaet of Thailand, summarized the points raised in the discussions into a checklist of issues (*see box*) to help guide the future work of the Group. □

### Checklist of issues

I. Implications of the relationship between trade and investment for development and economic growth, including:

- » economic parameters relating to macroeconomic stability, such as domestic savings, fiscal position and the balance of payments;
- » industrialization, privatization, employment, income and wealth distribution, competitiveness, transfer of technology and managerial skills;
- » domestic conditions of competition and market structures.

In this work, the Working Group should seek to benefit from the experience of Members at different stages of development and take account of recent trends in foreign investment flows and of the relationship between different kinds of foreign investment.

II. The economic relationship between trade and investment:

- » the degree of correlation between trade and investment flows;
- » the determinants of the relationship between trade and investment;
- » the impact of business strategies, practices and decision-making on trade and investment, including through case studies;
- » the relationship between the mobility of capital and the mobility of labour;
- » the impact of trade policies and measures on investment flows, including the effect of the growing number of bilateral and regional arrangements;
- » the impact of investment policies and measures on trade;

- » country experiences regarding national investment policies, including investment incentives and disincentives;

- » the relationship between foreign investment and competition policy.

III. Stocktaking and analysis of existing international instruments and activities regarding trade and investment:

- » existing WTO provisions;
- » bilateral, regional, plurilateral and multilateral agreements and initiatives;
- » implications for trade and investment flows of existing international instruments.

IV. On the basis of the work above:

- » identification of common features and differences, including overlaps and possible conflicts, as well as possible gaps in existing international instruments;
- » advantages and disadvantages of entering into bilateral, regional and multilateral rules on investment, including from a development perspective;
- » the rights and obligations of home and host countries and of investors and host countries;
- » the relationship between existing and possible future international cooperation on investment policy and existing and possible future international cooperation on competition policy. □

## Many submissions mark first meeting

In opening the first meeting of the Working Group on the Interaction between Trade and Competition Policy, held on 7-8 July, the Chairman, Professor Frédéric Jenny (France), welcomed the active interest of delegations as indicated by the 19 written contributions received by the Group. This, he said, would facilitate fulfilling the Group's mandate contained in the Singapore Ministerial Declaration: "to study issues raised by Members relating to the interaction between trade and competition policy, including anti-competitive practices, in order to identify any areas that may merit further consideration in the WTO framework."

Many delegations underlined the growing interest of governments on developing competition policies. The European Communities said that from about a dozen some 15 years ago, the number of domestic competition laws had risen to more than 50.

A number of delegations warned that trade liberalization and globalization might tempt firms to resort to anti-competitive practices—such as dividing markets artificially—which could negate WTO efforts to reduce obstacles to international commerce. As anti-competitive practices cross national borders, there was greater need to study possible coordinated responses to counter them.

Regarding one view that the Group should eventually consider possible disciplines in this area, many delegations stressed that the focus should be on studying the subject, including its relationship to development.

The need for the Group to draw from work in other organizations was underlined by a number of delegations.

UNCTAD briefed delegations on the United Nations Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices ("Set") while the World Bank reported on its assistance to a number of countries in the design or strengthening of competition

legislation. OECD and APEC also outlined its current work on competition policy and deregulation.

From the many submissions as well as points raised in the discussions, the Chairman drew up a checklist of issues (*see box*), which the Group might consider in the future. □

### Checklist of issues

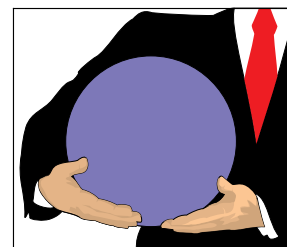
- I. Relationship between the objectives, principles, concepts, scope and instruments of trade and competition policy.
  - » Their relationship to development and economic growth.
- II. Stocktaking and analysis of existing instruments, standards and activities regarding trade and competition policy, including of experience with their application:
  - » national competition policies, laws and instruments as they relate to trade;
  - » existing WTO provisions;
  - » bilateral, regional, plurilateral and multilateral agreements and initiatives.
- III. Interaction between trade and competition policy:
  - » the impact of anti-competitive practices of enterprises and associations on international trade;
  - » the impact of state monopolies, exclusive rights and regulatory policies on competition and international trade;
  - » the relationship between the trade-related aspects of intellectual property rights and competition policy;
  - » the relationship between investment and competition policy;
  - » the impact of trade policy on competition.
- IV. Identification of any areas that may merit further consideration in the WTO framework. □

### Trade and competition policy

As government barriers to trade have been reduced, the need to examine private measures with a potentially trade-distorting effect has become necessary. In an increasingly global economy, differences in competition policy norms and effectiveness of enforcement have more marked international consequences, underscoring the importance of mutually-supportive trade and competition policies. Competition policy issues interface with a growing range of WTO activities, giving rise to an increasing need to ensure the mutual coherence of the two policy areas.

Consideration of the connection between trade and competition policy dates to the origins of the GATT, in the stillborn Havana Charter for an International Trade Organization. Adoption of the charter would have consolidated the issues covered by the GATT and issues of restrictive business practices into a single international trade treaty. New work was undertaken in the late 1950s in the GATT on restrictive business practices. This led to the establishment of a consultation procedure, invoked in a recent case relating to Fuji and Kodak. In the years that followed, extensive work on trade and competition policy was carried out in the United Nations Conference on Trade and Development (UNCTAD) and the Organization for Economic Cooperation and Development (OECD).

In the GATT/WTO context, competition policy issues are contained in a number of areas in the Uruguay Round Agreements. The GATS and TRIPS Agreement contain provisions directly relating to the control of anti-competitive practices. These relate not only to questions of market access and fair conditions of competition, but also to international cooperation to facilitate the control of anti-competitive practices. In this connection, it is also important to note that the Agreement on Trade-Related Investment Measures provides for consideration by the end of 1999 of whether or not it should be complemented with provisions on investment policy and competition policy. □



## Getting best value for taxpayers' money

Two international organizations, at the first meeting of the WTO Working Group on Transparency in Government Procurement on 23 May, said that more transparent rules and practices in procurement would help governments obtain the best value for its money in the purchase of goods and services.

The United Nations Commission on International Trade Law (UNCITRAL) and the World Bank briefed the WTO Working Group on their work in the area of government procurement.

UNCITRAL said that for the past 30 years, it had been developing model guidelines for states desiring to modernize their trade legislation. It said that its Model Law on Procurement of Goods, Construction and Services have been increasingly used by governments, particularly in recent years by transition economies in Eastern and Central Europe.

Many provisions of the Model Law, according to UNCITRAL, were aimed at encouraging transparency in the government procurement process—from the publication of the tenders to the actual selection of the winning bids. It added that a more open and competitive process discouraged offering of bribes and led to the best bids winning the contract.

The World Bank said that projects it financed were subject to mandatory guidelines of government procurements, which followed the principles of economy and efficiency. Transparency, according to the World Bank, fostered competition and enabled governments to get the best value for their money. It said transparency was also the best way to fight corruption, which it said was a serious problem all over the world—in all countries. It added that in its experience of providing some \$20 billion in loans every year, following the guidelines left no room for corruption.

In the discussions on the Group's future work, a number of delegations said that the Group would need to clarify elements that constituted transparency in government procurement. Gathering of more information and analytical work would facilitate the identification of these elements.

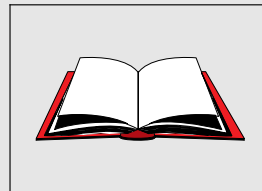
Japan submitted an informal discussion paper in which it said that it had been expanding procurement opportunities and enhancing transparency of procedures. It said that transparency ensured that procuring entities benefited from obtaining products and services of higher quality at lower prices. Japan cited a number of elements—from public announcement of procurement opportunities to the publication of the result of the contract award—that would assist in enhancing transparency of government procurement among WTO members. It suggested that the Group aim at the early completion of the study phase in order to proceed to negotiations on a possible agreement.

At the close of the meeting, the Chairman, Ambassador Werner Corrales Leal of Venezuela, said that the Group would continue its information-gathering work by contacting other organizations like APEC and the FTAA on national practices in this area. For the next meeting, the WTO Secretariat is to prepare a background paper comparing the treatment of transparency issues in the UNCITRAL Model Law, the World Bank Guidelines and the WTO plurilateral Agreement on Government Procurement and other WTO agreements □

The Group held its second meeting on 21 July, marked by its first round of substantial discussions and the submission of several informal papers. A report on this meeting will appear in the next issue of the *WTO FOCUS*. □

### International instruments

Timely and clear information on bidding opportunities for government contracts and projects is a major feature of the currently three international instruments on government procurement:



- » The **1994 WTO Agreement on Government Procurement** (see *WTO FOCUS* No. 8) is one of the four plurilateral agreements of the WTO. It establishes an agreed framework of rights and obligations among the 24 WTO members parties to the Agreement with respect to their national laws, regulations, procedures and practices in the area of government procurement with a view to achieving greater liberalization and expansion of trade and improving the international framework for the conduct of world trade. The GPA lays heavy emphasis on transparency of laws, regulations, procedures and practices to ensure that the basic principle of non-discrimination is followed and that access to procurement is actually available to foreign products, services and suppliers.
- » The **UNCITRAL Model Law on Procurement of Goods, Construction and Services** was drawn up by the United Nations Commission on International Trade Law to serve as a model for governments in the evaluation and modernization of their procurement laws and practices. On the premise that more open competition results in the taxpayer getting better value for public expenditures, the Model Law promotes in general non-discrimination through, for example, ensuring that foreign suppliers are given adequate transparency. At the same time, it recognizes that in some cases, government may wish to restrict foreign participation to protect domestic industries.
- » The **Guidelines for Procurement under IBRD Loans and IDA Credits and the Guidelines for Selection and Employment of Consultants by the World Bank Borrowers** set out the procedures for government projects financed by the World Bank. In most cases, borrowers are required to obtain goods and works through international competitive bidding open to all eligible suppliers and contractors, with allowance for preferences for domestic goods and works under certain conditions. The World Bank guidelines also allow for national competitive bidding for goods or works that are unlikely to attract foreign competition. □

## GOODS: Focus on trade facilitation

The Council for Trade in Goods, on 21 July, continued discussions on the subject of trade facilitation. Ministers in Singapore directed the Goods Council to “undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area.”

A number of delegations reiterated the importance of the subject—pointing out that their exporters had been experiencing practical problems at customs, such as excessive formalities, which reduced the value of trade liberalization agreed in the WTO.

A Secretariat background paper presented at the meeting outlined work on trade facilitation undertaken by other international organizations, including the UN Economic Commission for Europe, UNCTAD, the World Customs Organization, UNCITRAL, International Maritime Organization, ESCAP, International Civil Aviation Organization, OECD, International Trade Centre, the World Bank and the ISO. Work was also being done in non-governmental organizations like the International Chamber of Commerce and the International Air Transport Association, and in regional organizations like APEC.

The European Communities said that while the WTO should not duplicate work in other organizations, it could have a role in filling in the gaps and “adding value” to their work. In particular, value could be added by making rules and recommendations created by other organizations binding under the WTO legal framework.

Some delegations, including the United States, said that the successful completion of work in WTO’s “built-in” agenda on pre-shipment inspection, rules of origin and customs valuation would be the organization’s most important contribution to trade facilitation.

On other matters, the Goods Council agreed that the Committee on Regional Trade Agreements would examine the Euro-Mediterranean Interim Association Agreement on Trade and Cooperation between the European Community and the Palestine Liberation Organization for the Benefit of the Palestinian Authority of the West Bank and Gaza Strip. Israel expressed reservation over this agreement. □

## TRIPS: Switzerland proposes wider protection of place names

The higher level of intellectual property protection that WTO members have to give to the use of place names for identifying wines and spirits should be extended to other products, Switzerland told the Council for Trade Related Aspects of Intellectual Property Rights (TRIPS) on 15 July.

Switzerland included foodstuffs, agricultural products, handicrafts and industrial products among proposed categories of goods whose “geographical indications” should receive extra protection (for an explanation of protection to geographical indications, see *WTO FOCUS* No. 17).

The TRIPS Council was continuing its review of the application of the provisions of the TRIPS Agreement dealing with geographical indications.

The European Communities submitted tables linking the Community and members state laws on geographical indications to the TRIPS Agreement, and proposed that the

### Trade in Services

## **WTO adopts guidelines for recognition of qualifications in the accountancy sector**

The Council for Trade in Services, on 29 May, adopted guidelines for mutual recognition agreements in the accountancy sector. These guidelines, which were produced by the Council’s Working Party on Professional Services, are non-binding and are intended to be used by governments to make it easier to negotiate agreements on the mutual recognition of professional qualifications. In adopting these guidelines, the WTO has concluded part of the work programme mandated in the General Agreement on Trade in Services (GATS).

Up to now, the most common way to achieve recognition has been through bilateral agreements. The GATS permits this as a derogation to its fundamental principle of non-discrimination. There are differences in education and examination standards, experience requirements, regulatory influence and various other matters, all of which make implementing recognition on a multilateral basis extremely difficult. Bilateral negotiations will enable those involved to focus on the key issues related to their two environments. Once bilateral have been achieved, however, this can lead to other bilateral agreements, which will ultimately extend mutual recognition more broadly. These guidelines will also serve as an affective means of facilitating the movement of accountants across borders, and of avoiding the emergence of new disparities between recognition regimes around the world. □

tables be used as a model to summarize the laws in all WTO member countries as part of a fact-finding exercise. The data would be circulated before the next TRIPS Council meeting in September, the EC proposed. Switzerland, Hungary, the Czech Republic and India supported the idea. The United States, Canada, Australia and New Zealand countered that they needed more time to study the proposal.

The 15 July meeting was the TRIPS Council’s third this year, and lasted half a day. Other agenda items included follow-up work on reviews of legislation undertaken in previous meetings, some lasting a full week.

Many of the reviewed legislation have been from developed countries. Developing countries and (under certain conditions) countries in transition from centrally planned economies have until 2000 to ensure that their laws conform with the TRIPS Agreement. The Council’s Chairperson, Ambassador Carmen Luz Guarda of Chile, is discussing informally, with developing and transition countries whose legislation already conforms, the possibility of reviewing their laws before the end of the transition period.

The US and EC urged as many countries as possible to do this in order to reduce the Council’s load in 2000. □



## US, Brazil ask for panels

The Dispute Settlement Body (DSB), on 25 June, considered two requests for the establishment of panels, and heard a report from the United States on its implementation of the DSB recommendations on its gasoline rule.

The United States requested the establishment of a panel to examine its complaint against certain Indonesian measures affecting the automobile industry. It said that for nearly a year, it had been consulting with Indonesia on this matter. These consultations had intensified in the past two weeks but still had not resulted in a solution. It expected to continue the constructive discussions with Indonesia alongside the panel process.

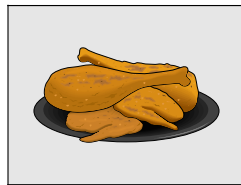
In its formal complaint, the United States claimed that Indonesia's grant of tax and tariff benefits under its national motor vehicle programme violated provisions of the GATT 1994, the Agreement on Trade-Related Investment Measures (TRIMs) and the Agreement on Subsidies and Countervailing Measures.

Indonesia said it would prefer to continue discussions with the United States and thus would not support the establishment of a panel at the meeting.

The DSB agreed to revert to the US request at its next meeting. (Note: at the previous meeting, the DSB established a panel concerning Indonesia's measures, see below.)

### Brazil asks for panel on EC poultry measures

Brazil requested a panel to examine its complaint that with respect to imports of chicken parts, the EC had failed to implement a bilateral agreement concluded in 1993. It said that a more favourable tariff quota for Brazilian chicken was part of EC's compensation package to deal with the recommendations of the "oilseeds" panel (see *GATT FOCUS* No. 90). Brazil expressed concern about what it said was a lack of transparency in EC actions in this regard, and claimed the EC poultry import regime was inconsistent with provisions of the GATT 1994, the Agreement on Import Licensing Procedures and the Agreement on Agriculture, and nullified and impaired WTO benefits accruing to Brazil.



The EC said it was unwilling to agree to a panel at that meeting as Brazil's complaint required further study.

The DSB agreed to revert to Brazil's request at the next meeting.

### US reports on implementation of gasoline report

The United States reported that the Environmental Protection Agency (EPA) was now reviewing a broad range of comments, including those from concerned trading partners, on the proposed revision to its gasoline rule to comply with the WTO panel and Appellate Body reports.

Venezuela and Brazil, the complainants in this case, and the EC expressed concerns about certain aspects of EPA's proposed revision. □

*The panels requested by the United States and Brazil were established by the DSB on 30 July. It was agreed that the US complaint would be examined by the existing panel considering similar complaints by the EC and Japan. The DSB also adopted the Appellate Body report, and the panel report as modified, concerning Canadian measures on periodicals. A full report will be in the next FOCUS.*

### Panel established on complaints by EC and Japan against Indonesia's auto measures

The DSB, on 12 June, established a single panel to examine complaints by Japan and the European Communities against certain measures by Indonesia affecting the automobile industry.

Japan said that it was reiterating its request for a panel because consultations with Indonesia after the April DSB meeting (see *WTO FOCUS* No. 19), when it first submitted its request, had not been able to settle the issue. It added that in parallel with the panel, it intended to continue consultations with Indonesia to find a mutually satisfactory solution at an early stage.



The EC said that it first submitted its panel request in May but Indonesia had been unable to accept the request. It reiterated that the measures in question were inconsistent with Indonesia's obligations under GATT 1994, the Agreement on Trade-Related Investment Measures (TRIMs) as well as the Agreement on Subsidies and Countervailing Measures. The EC said the measures included the granting of exemption from import duties and luxury tax for parts and components contingent on local-content requirements as well as for automobiles produced by certain companies which had been granted pioneer status.

The Chairman, Ambassador Wade Armstrong (New Zealand), recalled that the EC had also requested the DSB to initiate procedures under Annex V of the Subsidies Agreement for the gathering of information to be used by the panel. He proposed, and the DSB agreed, the designation of Mr. Stuart Harbinson (Hong Kong, China) as representative to facilitate the information-gathering process.

### Confidentiality of reports

At the close of the meeting, Norway expressed concern over the leaking of panel and Appellate Body reports, which it said had become a rule rather than an exception. It said that work of panels had been undermined by the leaking of reports at their interim review stage. Norway suggested that this issue be considered during the review of the WTO Dispute Settlement Understanding next year. □

## Overview of WTO Dispute Settlement

(As of 30 July 1997)

Complainants	Subject
<b>Adopted Appellate Reports</b>	
<i>Venezuela, Brazil</i>	United States - Standards for reformulated and conventional gasoline ( <i>Reports adopted by DSB on 20 May 1996</i> )
<i>EC, Canada, United States</i>	Japan - Taxes on alcoholic beverages ( <i>Adopted 1 November 1996</i> )
<i>Costa Rica</i>	United States - Restrictions on imports of cotton and man-made fibre underwear ( <i>Adopted 25 February 1997</i> )
<i>Philippines</i>	Brazil - Measures affecting desiccated coconut ( <i>Adopted 20 March 1997</i> )
<i>India</i>	United States - Measure affecting imports of woven wool shirts and blouses ( <i>Adopted 23 May 1997</i> )
<i>United States</i>	Canada - Certain measures concerning periodicals ( <i>Adopted on 30 July 1997</i> )
<b>Panel Report Appealed</b>	
<i>Ecuador, Guatemala, Honduras, Mexico, United States</i>	European Communities - Regime for importation, sale and distribution of bananas ( <i>Appealed by the EC on 11 June 1997</i> )
<b>Active Panels</b>	
<i>United States</i>	European Communities - Measures affecting meat and meat products (hormones) ( <i>Established 20 May 1996</i> )
<i>Canada</i>	European Communities - Measures affecting livestock and meat (hormones) ( <i>16 October 1996</i> )
<i>United States</i>	Japan - Measures affecting consumer photographic film and paper ( <i>16 October 1996</i> )
<i>European Communities</i>	United States - The Cuban Liberty and Democratic Solidarity Act ( <i>20 November 1996 - panel work suspended on 25 April 1997 at request of the EC</i> )
<i>United States</i>	India - Patent protection for pharmaceutical and agricultural chemical products ( <i>20 November 1996</i> )
<i>Argentina, Australia, Canada, New Zealand, Thailand, US</i>	Hungary - Export subsidies in respect of agricultural products ( <i>25 February 1997</i> ). <i>Note: At the DSB meeting on 30 July 1997, the complainants notified that they had reached a mutually agreed solution, which required Hungary to seek a WTO waiver. Pending the adoption of the waiver, the complaint was not formally withdrawn.</i>
<i>United States</i>	Turkey - Taxation of foreign film revenues ( <i>25 February 1997</i> )
<i>United States</i>	Argentina - Certain measures affecting imports of footwear, textiles, apparel and other items ( <i>25 February 1997</i> )
<i>India, Malaysia, Pakistan and Thailand</i>	United States - Import prohibition of certain shrimp and shrimp products ( <i>25.2.97; for India's complaint, 10 April 1997</i> )
<i>United States</i>	(a) EC - Customs classification of certain computer equipment; (b) United Kingdom - Customs classification of certain computer equipment; (c) Ireland - Customs classification of certain computer equipment ( <i>25 November 1996 for (a); (b) and (c) incorporated 20 March 1997</i> )
<i>Mexico</i>	Guatemala - Anti-dumping investigation regarding imports of portland cement from Mexico ( <i>20 March 1997</i> )
<i>Canada</i>	Australia - Measures affecting the importation of salmon ( <i>10 April 1997</i> )
<i>Japan, European Communities, United States</i>	Indonesia: Certain measures affecting the automobile industry ( <i>12 June 1997 for EC and Japan, 30 July 1997 for the United States</i> )
<i>Brazil</i>	EC - Measures affecting importation of certain poultry products (First request, <i>12 June 1997</i> )
<b>Recent Requests for Consultations</b>	
<i>Australia, Canada, EC, New Zealand, Switzerland, United States</i>	India - Quantitative restrictions on imports of agricultural, textile and industrial products ( <i>Request by US notified on 15 July 1997; by Australia, Canada and New Zealand, on 16 July 1997; by Switzerland and the EC, on 18 July 1997</i> )
<i>Korea</i>	United States - Anti-dumping duties on imports of colour television receivers from Korea ( <i>10 July 1997</i> )
<i>EC, Japan</i>	United States - Measure affecting government procurement ( <i>EC, 20 June 1997; Japan, 18 July 1997</i> )
<i>EC</i>	Chile - Taxes on alcoholic beverages ( <i>4 June 1997</i> )
<i>United States</i>	Sweden - Measures affecting the enforcement of intellectual property rights ( <i>28 May 1997</i> )
<i>EC</i>	United States - Measures affecting textiles and apparel products ( <i>23 May 1997</i> )
<i>United States</i>	Denmark - Measures affecting the enforcement of intellectual property rights ( <i>14 May 1997</i> )
<i>United States</i>	Ireland - Measures affecting the grant of copyright and neighbouring rights ( <i>14 May 1997</i> )
<i>United States</i>	Belgium - Measures affecting commercial telephone directory services ( <i>2 May 1997</i> )
<i>EC</i>	India - Patent protection for pharmaceutical and agricultural chemical products ( <i>28 April 1997</i> )
<i>Colombia</i>	United States - Safeguard measure against imports of broom corn brooms ( <i>28 April 1997</i> )
<i>EC</i>	Argentina - Measures affecting textiles, clothing and footwear ( <i>17 April 1997</i> )
<i>United States</i>	Japan - Measures affecting agricultural products ( <i>7 April 1997</i> )
<i>EC, United States</i>	Korea - Taxes on alcoholic beverages ( <i>EC, 4 April 1997; US, 23 May 1997</i> )
<i>United States</i>	Philippines - Measures affecting pork and poultry. ( <i>1 April 1997</i> )
<b>Cases Settled Recently</b>	
<i>United States</i>	Turkey - Taxation of foreign film revenues (mutually-agreed solution notified on <i>14 July 1997</i> )
<i>United States</i>	Pakistan - Patent protection for pharmaceutical and agricultural chemical products (agreement notified <i>28 Feb. 1997</i> )

## Working double-time on harmonization

The WTO Committee on Rules of Origin, on 15 May, welcomed efforts by the Technical Committee on Rules of Origin to streamline and speed up its work on harmonization of rules of origin, which, under the WTO Agreement on Rules of Origin is supposed to be completed by July 1998. The Brussels-based body had agreed to increase the number of meetings, extend working hours and streamline procedures, with the aim of completing its technical work by the end of this year.

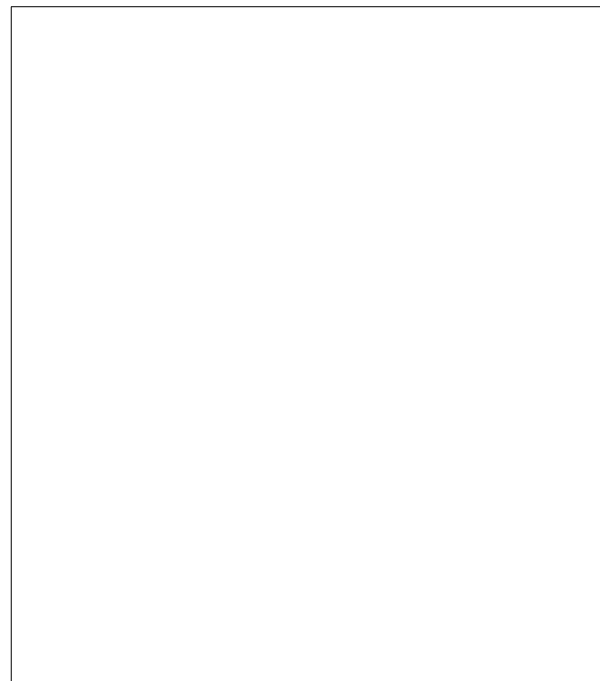
The outgoing Chairman of the WTO Committee, Mr. Chiedu Osakwe of Nigeria, expressed concern that the harmonization work programme was behind schedule. He said the WTO Committee would have to be prepared to deal with many outstanding issues that the Technical Committee probably would transmit to Geneva, including product-specific rules on watches and clocks, leather, iron and steel, textiles, electronics and chemicals.

### Technical Committee's 7th Report

The new Chairperson of the WTO Committee, Mrs. Lourdes Berrig of the Philippines, noted that the Technical Committee had submitted its seventh report to the Committee, and said that the Technical Committee, at its Seventh Session in Brussels in February, had completed its first examination of rules of origin for textiles (HS Chapters 56-63), chemicals (Chapters 33-40) and tools/machinery (Chapters 82-84). She said that the Technical Committee, in July, would hold final technical discussions on product-specific rules for mineral products (Chapters 25-27) and leather products (Chapters 41-43).

The Committee agreed that it would communicate its recognition—through the Chairperson—to the Technical Committee for its efforts to facilitate the decision-making process and convey its anticipation of the completion of technical discussion on mineral and leather products in July.

Australia said that the WTO Committee needed also to look at its own method of work rather than focusing only on the work to consider the interpretations and opinions of the Technical Committee as well as unresolved issues sub-



*Assembling watches: rules of origin affect many aspects of international trade. (ILO Photo)*

mitted to the Committee for decision. Other delegations suggested that the Committee could discuss its method of work at an informal meeting in July.

Japan reported on an informal meeting by members of the Technical Committee held last April in Tokyo. It said that good progress was made in discussions with respect to product-specific rules on watches and clocks (Chapter 91) and steel articles (Chapters 72-73). On the integrated negotiating text for the harmonization work programme, the Committee agreed that, given the volume of the present text, only subsequent additions to the text would be circulated to members. □

### Rules of origin

Rules of origin can affect many aspects of commercial activity. For instance, the administration of quota systems, of tariff preferences, of anti-dumping and countervailing duties are all highly dependent on there being a clear understanding of the origin of goods.

The Uruguay Round resulted in the first-ever agreement on rules of origin. It requires WTO members to ensure that their rules of origin are transparent; that they do not have restricting, distorting or disruptive effects in international trade; that they are administered in a consistent, uniform, impartial and reasonable manner; and that they are based on a positive standard (in other words, they should state what does confer origin rather than what does not).

Longer term, the agreement aims at the harmonization of rules of origin, other than those relating to the granting of tariff preferences. It establishes a harmonization programme, to be completed within three years of initiation (by July 1998), based upon a set of principles, including making rules of origin objective, understandable and predictable. The work is being conducted by the Committee on Rules of Origin in the WTO and the Technical Committee on Rules of Origin under the auspices of the World Customs Organization in Brussels. The outcome will be a single set of rules of origin to be applied under non-preferential trading conditions by all WTO members in all circumstances.

An annex to the agreement sets out a "common declaration" with respect to the operation on rules of origin on goods which qualify for preferential treatment. □



# How products are classified in world trade

The “Harmonized Commodity Description and Coding System” (Harmonized System or HS) is an international product nomenclature, which has been developed under the auspices of the Customs Co-operation Council (now called the World Customs Organization or WCO) based in Brussels.

The HS is broadly based on the CCCN (Customs Co-operation Nomenclature used by the European Communities and many other countries) and the revised SITC (the statistical nomenclature used by the United Nations), and also takes into account some aspects of the TSUS (national tariff of the United States) and the Canadian nomenclatures.

The HS, which came into effect on 1 January 1988, was meant to be used not only for customs purposes but also for the collection of trade statistics and for all kinds of transactions in international trade (transport, insurance, etc.). It is implemented through an International Convention under which contracting parties are committed to apply the HS at the 6-digit level and subsequent changes recommended by the HS Committee and approved by the WCO Council.

## 1,241 headings

For the purpose of tariff classification, the HS provides a legal and logical structure. It consists of a total of 1,241 headings grouped into 96 chapters that are themselves subdivided into 21 sections. Thus, the HS consists of more than 5,000 sub-headings identified by a 6-digit code and provided with definitions and rules to ensure uniform application.

During the Uruguay Round, the fact that participants were speaking the same trade language helped facilitate the

tariff negotiations. Practically all WTO members apply the HS nomenclature, which means that more than 95 per cent of world trade is now covered by the HS.

However, the introduction of the HS implied considerable changes in the schedules of concessions, particularly for the industrialized countries that have bound almost the totality of their tariffs. The main principle to be observed in

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*During the Uruguay Round, the fact that participants were speaking the same trade language helped facilitate the negotiations...*

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HS introduction is that existing bindings should remain unchanged in order to keep the authentic texts of WTO schedules up-to-date and in conformity with national tariffs. However, the new nomenclature meant that members had to undertake large-scale renegotiations under GATT Article XXVIII (Modification of Schedules), and special procedures had to be established to facilitate the introduction of and transposition of schedules into the HS. These negotiations are still underway for those countries that have not yet transposed their pre-Uruguay Round schedules of concessions into the HS and for those that have implemented amendments to the HS.

Article 16 of the HS Convention foresees periodic revision of the System. To keep the HS up-to-date and to take into account changes in technology, new products and developments in international trade, two sets of amendments to the HS were made on 1 January 1992 and 1 January 1996, respectively. A third set of amendments is expected to be introduced in the year 2002 or 2003.

## Historical background

From earliest times, there has existed an interest in classifying goods. The first “goods classification systems” were very simple, consisting, as they did in most cases, of nothing more than an alphabetical list of goods to which a particular tax or toll (rate of duty) applied or which were exempted from such levels. However, the alphabetical lists became unwieldy. Thus, customs tariffs based on criteria such as the nature of the goods rather than their duty status were developed.

The earliest uniform statistical nomenclature to have been approved by international convention appears to have been adopted at the Second International Conference on Commercial Statistics, held in Brussels in 1913. This convention was signed by 29 countries on 31 December 1913. In 1959, the CCCN was established by the 1950 Brussels Convention on Nomenclature for the Classification of Goods in Customs Tariffs. In 1970, work started on a harmonized commodity description and coding system capable of meeting the principal requirements of customs authorities, statisticians, carriers and producers. In 1988, the Harmonized Commodity Description and Coding System of the WCO was introduced. □

For more information, please consult WCO’s publication *Introducing the International Convention on the Harmonized Commodity Description and Coding System*

### An example of how the HS classifies goods (information technology products):

HS96		HS description
3818		Chemical elements doped for use in electronics, in form of discs, wafers or similar forms; chemical compounds doped for use in electronics
8469	11	Word processing machines
8470		Calculating machines and pocket-size data recording, reproducing and displaying machines with a calculating function; accounting machines, postage franking machines, ticket-issuing machines and similar machines, incorporating a calculating device; cash registers
8470	10	Electronic calculators capable of operating without an external source of electric power and pocket size data recording, reproducing and displaying machines with calculating functions.
8470	21	Other electronic calculating machines incorporating a printing device.

*The first four digits indicate the product line, or the family of product. The fifth and sixth digits designate a specific product. Another example: 8703 is the number for cars; for instance, 8703.10 is for vehicles designed for travelling on snow; and 8703.21 is for vehicles of a cylinder capacity not exceeding 1000 cc.*

## Working Party examines PSI experiences

The Working Party on Preshipment Inspection (PSI), on 13 June, considered a checklist of issues proposed by the Chairman for the review of the WTO PSI Agreement and submissions by four countries of their experiences with the use of PSI.

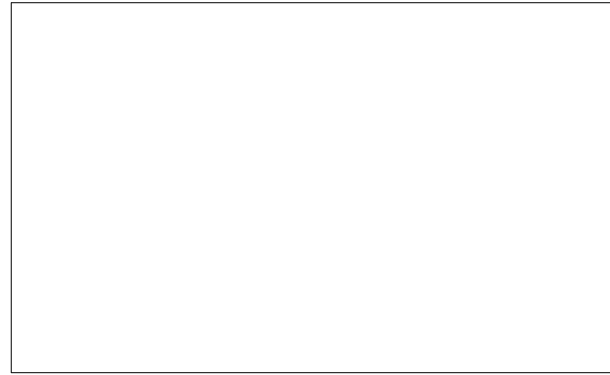
The Chairman, Mr. Chiedu Osakwe (Nigeria), said that following the first meeting of the Working Party held last February and subsequent informal consultations, the following issues have emerged which provided a basis for the review process: price verification, confidentiality of business information, non-discriminatory application of inspection criteria, transparency, delays, on-site representation of PSI entities and operation of the Independent Entity.

A number of delegations supported the Chairman's checklist as a good basis for future work of the Working Party while a few said it was premature.

In the discussions, many delegations underlined the need for strengthening transparency in this area, including notification by members of their domestic regulations. It was suggested that the subject of technical assistance be added to the checklist. Many delegations were also reticent about subjecting PSI agencies to obligations that should be undertaken by member governments.

The following countries made submissions regarding their experiences with PSI:

- » **Ghana** said that PSI used had resulted in significant revenue gains for the governments: in 1996 foreign exchange savings and customs revenues increased, respectively, by 33% and 38 % to \$32 million and \$110 million. However, it said some problems remained in the import sector, including price arrangements between exporters and importers. It added that price verification was crucial to the PSI programme to address concerns about misclassifications, under- and over-invoicing and illegal transfer of foreign exchange.
  - » **The Philippines** said that it had made considerable efforts to implement the PSI Agreement, including the establishment of an internal appeals mechanism, the requirement for PSI agencies to follow the national customs valuation law, and an inspection-fee system that discouraged conflict of interest.
  - » **Peru** said it started using PSI in 1992 to prevent the undervaluation of imports. It said rules had been introduced in national legislation instructing PSI entities to maintain confidentiality of business information. Peru added that it had not detected any sign of discrimination against countries, and that national regulations provided for the issuance of an inspection certificate within 3 working days instead of the 5 days required by the PSI Agreement.
  - » **Colombia** said that it introduced PSI for imports in the second half of 1995, and that 26% of its imports were subject to PSI in 1996. It said that only goods susceptible to fraud and unfair trade practices were subject to mandatory PSI. PSI was also mandatory with respect to goods subject to anti-dumping and safeguard measures. Colombia added that it had taken steps to prevent problems regarding delays and price verification.
- While the four countries above cited generally positive



*Checking cargo: PSI users report positive experiences but some countries have concerns. (ILO Photo)*

### Preshipment Inspection

**P**reshipment inspection is the practice of employing specialized private companies to check shipment details—essentially price, quantity and quality—of goods ordered overseas. Used by governments of developing countries, the purpose is to safeguard national financial interests (prevention of capital flight and commercial fraud as well as customs duty evasion, for instance) and to compensate for inadequacies in administrative infrastructures.

The WTO's PSI agreement recognizes that GATT 1994 principles and obligations apply to the activities of preshipment inspection agencies mandated by governments. The obligations placed on PSI-user governments include non-discrimination, transparency, protection of confidential business information, avoidance of unreasonable delay, the use of specific guidelines for conducting price verification and the avoidance of conflicts of interest by the PSI agencies. The obligations of exporting members towards PSI users include non-discrimination in the application of domestic laws and regulations, prompt publication of such laws and regulations and the provision of technical assistance where requested.

Under the agreement, an independent review procedure had been established—the Independent Entity—involving the PSI agencies, exporters and the WTO Secretariat to resolve disputes between an exporter and a PSI agency. □

experiences with PSI use, a number of members cited problems their exporters have encountered with PSI companies. The United States cited cases where its exporters had had problems with PSI agencies. It said that delays in shipments had been caused by PSI inspectors either unavailable or failing to arrive for the scheduled inspection. It said that many PSI inspectors had little knowledge of the products concerned, and lacked the necessary language skills, which had led to misunderstanding and confusion. Australia, the EC, Korea and New Zealand also expressed concern over certain practices by PSI companies. □

## Questions on tariff quotas

The two-tier system of customs duty rates known as tariff quotas, which are applied to imports of a number of agricultural products, were again the subject of extensive questioning in the Agriculture Committee's second meeting of 1997, on 25-26 June.

The questioning came during a regular review of notifications—countries' reports to the WTO on how they are implementing their commitments on market access, domestic support and export subsidies under the Agriculture Agreement—and in discussions of specific implementation issues that some countries raised.

Overall, about 250 questions were raised by some eight countries. They dealt with almost 40 notifications out of a total of about 70 that were up for review. The Agriculture Agreement, like other WTO agreements, requires members to report on how they are complying with their commitments so that the actions taken are transparent.

Questions were asked both about the way the tariff quotas were being allocated among importers or exporters, and about cases where the volumes imported did not reach the quota limits. Thirty-five WTO members have tariff quota commitments on various agricultural products.

In one or two cases, the notifying country reported that some imports were categorized as "out-of-quota" and charged the higher rate even though the quantity inside the quota fell short of the quota limit. This indicates that in some cases tariff-quota import licences are not being fully used, despite prices in import markets often being significantly higher than world market prices. In many cases, the countries being questioned attributed the shortfall to demand and supply conditions.

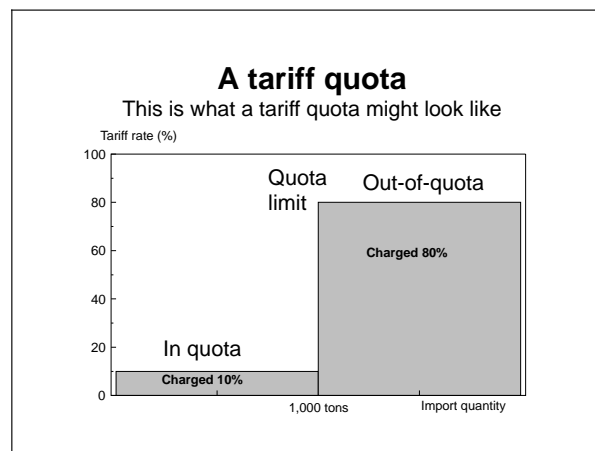
Questioning countries expressed concern about the various methods of implementing tariff quota commitments—how the quotas are shared out and other related questions. They said these might be too burdensome for the trade, preventing imports from filling the quotas.

A number of countries also wanted to know whether some of the figures for imports within the lower-duty quotas included imports under regional arrangements such as free trade agreements. To include preferential trade within the lower-duty quotas could violate GATT, they said.

One exporting country suggested at the end of the discussions on tariff quotas, that if shortfalls persist over several years, importing countries should scrap the quotas. Only the lower in-quota tariff rates should be used if demand really was the reason for imports failing to fill the quotas, this country said.

On a separate but related agenda item, some exporting countries criticised some importing countries' use of special safeguard measures even when domestic producers were not suffering. Under the Agriculture Agreement, special safeguard restrictions on imports can be used if low import prices or surges in import quantities meet certain criteria. However, the right to use the special safeguard is restricted to 37 members and to designated products, and the additional duties imposable cannot be applied to imports under tariff quotas.

Under regular GATT safeguards rules for goods in general, governments have to show that the lower import prices



Here, 10% duty is charged on a quota of 1,000 tons. Imports outside the quota are charged 80%. Under the Uruguay Round agreement, the 1,000 tons would be based on imports permitted in the base period or a negotiated "minimum access" level. Sometimes, because of the way the quotas are managed, some imports fall outside the quota and are charged the higher duty even though the quantity imported within the quota falls short of the limit (in this case it would be less than 1,000 tons).

or increases in imports are hurting domestic producers. Under the Agriculture Agreement they do not. One exporting country said that the way some importing countries are applying the special agricultural safeguard provisions almost automatically instead of when they was really needed, is a misuse of the provisions. The countries concerned countered that the actions they took are fully justified.

### Export subsidies

A number of items discussed in this year's first meeting in March continued to be debated. Two on export subsidies have received particular attention.

One is about a new revenue-pooling scheme for milk and milk products that are sold in domestic and export markets at different prices. The country concerned denied that the scheme, which involves sales at lower prices to exporters and to processors facing import competition, amounts to paying export subsidies as defined by the agreement. Several countries have expressed concern about the scheme in three meetings of the Committee.

The other is a new "inward processing" programme for processed cheese exports. The programme enables subsidized inputs (such as milk powders) produced in the member concerned to be "exported" to an export processing zone where they are made into processed cheese and sold to other countries. The country concerned counts the subsidized inputs under its commitments to limit its export subsidies on these products, and not on processed cheese exports.

Questioning countries said the programme is a device for the exporting country get round its export subsidy commitment on processed cheese, in a way that conflicts with the Agriculture Agreement. The exporting member concerned denied it was circumventing its commitments on processed cheese, arguing that the "inward processing" was similar to many others in practice. □

## “Mad cow disease” and health standards

The measures some countries have adopted to prevent the spread of “mad cow disease”, and the question of whether non-binding international health standards for food might turn out to be binding under the WTO, were among the issues discussed in the second meeting (1-2 July) this year of the Committee on Sanitary and Phytosanitary Measures.

During the 1½-day meeting, members also questioned each other about a number of other trade measures. And they heard progress reports on the Committee’s administrative and more technical work, in particular how the Committee might tackle the task of monitoring the use of recognized international standards in trade measures related to animal, plant and food health, and possible approaches for ensuring that government decisions on managing risk are consistent.

### Complaints

Bovine spongiform encephalopathy (BSE, or “mad cow disease”) featured in three agenda items:

- » A complaint by the United States about a French ban on some kinds of pet food;
- » Another US objection to an EC ban on bovine materials used in cosmetics;
- » Swiss questions about the trade measures 16 countries have adopted to curb BSE: Argentina, Austria, Belgium, Brazil, Canada, Czech Republic, France, Germany, Italy, Netherlands, Poland, Romania, Singapore, Slovakia, Spain and the United States.

In general, the discussions focused on different assessments of the scientific knowledge currently available, including the questions of how scientific evidence is considered within bureaucracies, whether enough is known to enable any area to be declared free of BSE, and why some measures still have not been reported to the WTO.

In particular, the United States noted that the French restrictions have not been notified. The European Communities said this was because of the time needed for a measure adopted by a member state to be processed at the Community level. The procedure was not designed for a situation like BSE, and it is now being streamlined, the EC said.

Switzerland’s questions included queries about when the countries expected to abolish the measures, whether the measures deviate from the recommendations of the Office International des Epizooties, and how the countries are conforming with the requirements of the SPS Agreement dealing with risk evaluation, trade impact, and avoiding unjustified and arbitrary discrimination. Many of the replies are written or are being prepared in writing and a number of bilateral discussions have also taken place in response to the Swiss questions. These bilateral discussions will continue.

Among other trade issues discussed were an Australian



complaint about Korea only allowing a short shelf-life for ultra-heat treated (UHT) milk. Korean regulations permit a shelf-life of seven weeks, and this is set by the government, whereas the normal practice is to allow manufacturers to set their own shelf life, usually 6-12 months, Australia said. Korea said it was introducing manufacturer-determined shelf life gradually, and that this would apply to milk by the end of 1998.

Also discussed was an Argentine complaint about an EC restriction on imports of citrus fruits, notified to the WTO in June. From September, new measures are being introduced to protect the Community against *Xanthomonas campestris* (“citrus canker”), *Cercospora angolensis* (“citrus leaf spot”) and *Guignardia citricarpa* Kiely (“citrus black spot”). Argentina challenged both the scientific justification of some of the measures, and the broader principle involved when restrictions are applied to the whole of the EC, in order to protect production in a small area Argentina said this was only 0.16% of the EC. South Africa, Chile, Brazil and Uruguay supported Argentina. The EC defended the scientific basis of its measure, and added that the restrictions have to apply to the whole of the Community because of the internal free movement of goods under the single market.

### Codex Alimentarius

The SPS committee decided to study the implications of the different types of standards, codes of conduct and guidelines of the FAO/WHO Codex Alimentarius on food, including regional standards. Australia proposed the study, describing how the recent meeting of the Codex Commission had faced difficulty considering new codes and guidelines because members were unclear to what extent these would be binding under the WTO. The WTO’s SPS Agreement recognizes Codex as the international standard-setting body for setting food safety, and does not specifically distinguish between the different categories of Codex texts. The other two “sisters”, the International Plant Protection Convention and the International Office of Epizootics, will also be consulted.

Slow progress was reported on the Committee’s administrative duties under the agreement. The chairman submitted a draft temporary procedure for monitoring to what extent members are applying internationally-recognized standards as their SPS regulations. There were also discussions on risk analysis: under the SPS agreement, members should be consistent in the way they assess health risks for all goods, because inconsistency would allow tighter health regulations to be used selectively as protectionism in disguise. Further work is planned in informal discussions.

The next SPS meeting is in October. A new item on its agenda will be preparations for the first review of the SPS Agreement, due to take place in 1998. □

TPRB: Cyprus

## Solid steps towards trade liberalization

*The Trade Policy Review Body (TPRB) concluded its first review of Cyprus' trade policies on 26 June. Prior to the start of the review, there was an exchange of views on the political aspects of the situation in Cyprus. Excerpts from the Chairperson's concluding remarks:*

The discussion of Cyprus' trade policies was underscored by the appreciation of Members for the considerable steps already taken by Cyprus to liberalize its import markets, reduce export restrictions, and establish a rules based, transparent trading and investment environment. The economy had clearly benefited from the reduction in distortions by developing trade in manufactures and, particularly, services; per capita income levels had grown considerably. Cyprus was urged to continue its trade liberalization and to embed it solidly within the rules and principles of the multilateral trading system, particularly by increasing its commitments in the WTO. In this context Members raised a number of issues including:

- » the outlook for sustainable growth in the economy and the prospects for exports and investment in goods and services;
- » fiscal discipline, partly linked to the Maastricht criteria, and its role in helping to sustain a stable macroeconomic environment. Relevant to this issue were the link of the Cyprus pound to the ecu, monetary policy considerations and associated prospects for the rate of inflation;

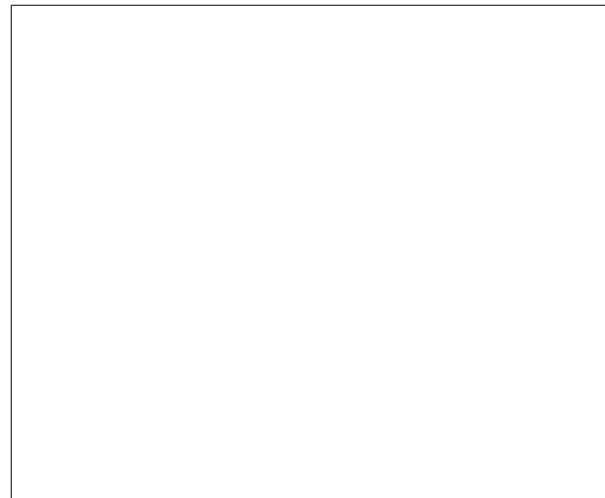
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*Cyprus saw no conflicts between acceptance of the EU *acquis communautaire* and WTO objectives...*

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- » the vulnerability of Cyprus' economy to the external environment, as reflected in a structural trade deficit, and measures to strengthen the production base, to lend stability to economic growth;
- » economic and legislative preparations for the integration of Cyprus into the European Union. In this connection, several Members clearly expressed the view that this integration should not be at the expense of Cyprus' full participation in the multilateral system, and emphasized the need for greater geographical diversification of trade;
- » investment objectives, especially equity participation limits on some FDI and the nature of the "economic interest" clause;
- » the tariff structure, notably divergences between applied and bound rates; surcharges for safeguard reasons; the still significant number of specific rates; the use of excise taxes; and participation in the ITA;
- » the use of standards by Cyprus that are more stringent than international standards in some areas; taxation and standards applied to automobiles.

Members also raised a number of questions in connection



*Beach resort in Cyprus: Tourism is a major industry.*

with Cyprus' sectoral policies. Thus, in agriculture, questions were posed on the use and level of subsidies, and on the MFN and preferential implementation of certain tariff quotas, including on sheepmeat.

In response, the representative of the Republic of Cyprus replied to the questions raised under three headings; macroeconomic and structural policies, trade-related policy objectives and instruments, and sectoral issues. Cyprus undertook to provide written answers to certain other questions.

Regarding Cyprus' preparations for joining the EU, the application of the EU common external tariff would result in tariffs lower than the rates bound in the WTO by Cyprus, hence in more favourable conditions. No new quotas or other trade barriers would result from the customs union; all quantitative restrictions had been lifted from 1 January 1996, with a tariff quota system introduced on various products, including textiles.

On trade related policies and objectives, the representative of Cyprus saw no conflicts between acceptance of the EU *acquis communautaire* and WTO objectives. Cyprus followed the continuous progress of EU legislation on international issues.

On more specific issues, "surcharges" applied by Cyprus were increased tariffs resulting from the process of elimination of QR's; most surcharges would be removed by end-1998, and residual surcharges would be lifted by 2002/3. The "refugee levy" would be removed on all products contained in the EU Association Protocol from 1 January 1998; products outside the Protocol would remain subject to the levy. Import duties on cars would be reduced to a MFN rate of 10 per cent by end 1997, with a zero rate for imports of cars from the EU. Excise taxation of cars was an important revenue-effective element of taxation.

On sectoral matters, in agriculture the system of administration for the tariff quota on sheepmeat had been introduced to ensure fair and equitable treatment.

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Overall, I believe we have had a useful review of Cyprus. I know what difficulties the Cypriot delegation have laboured under in preparing their replies at such speed, and I thank them warmly for their efforts. □

*Renato Ruggiero*

## ***An enabling environment for development: the contribution of the multilateral trading system***

*The following are excerpts from the address delivered by Mr. Renato Ruggiero, Director-General of the World Trade Organization, to the UN Economic and Social Council (ECOSOC) on 2 July in Geneva:*

**I**t is clear that we live in a world which is unsatisfactory—even unacceptable—in many respects. It is a world where, according to the latest United Nations Human Development Report, over a quarter of the developing world's people still live in poverty. About a fifth—1.3 billion—live on incomes of less than \$1 a day. And over fifty per cent of the global population has less than five per cent of global income. These statistics reinforce what our eyes and ears already tell us—that though we are part of an ever more integrated global economy, the distance between rich and poor is still intolerably great.

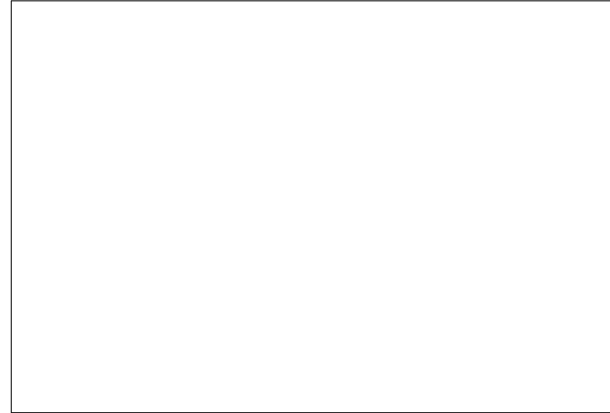
But there is another reality which should not be obscured by these sombre statistics—a reality of real progress and hope, underlined by Michel Camdessus. Worldwide growth and living standards are rapidly rising, more rapidly than at any point in the last thirty years. We can welcome the fact that even this year's UN World Economic and Social Survey—published today—notes that the circle of economic growth has spread to most parts of the world—averaging over 3 per cent worldwide. Of the 95 countries it covers, only 11 failed to increase per capita output in 1996, compared with 24 in 1995.

And the UN's Human Development Report reminds us that poverty has been reduced more in the last fifty years than in the last 500. It talks about the potential for eradicating global poverty in the early part of the next century—a utopian notion even a few decades ago, but a real possibility today. In the same vein, the OECD now predicts that per capita income in the developing world could rise by a remarkable 270 per cent by the year 2020, and in the developed world by 80 per cent. Already developing countries account for a quarter of world trade; at current rates of growth, they could account for half of world trade by the year 2020.

### ***An engine for growth***

Globalization will not solve the very real problems of distribution we face—nor will it, on its own, feed and clothe our children, or educate and empower their parents. What globalization provides is the most powerful engine for growth the world has yet seen—an essential basis for building the shared global society that is now within our reach. For as the Secretary-General's Report reminds us, global economic and social development on a sustainable basis requires “solid rates of economic expansion”—expansion which cannot be achieved if the raw material of globalization is compromised. A new global “enabling environment” can only be built on the foundation of an open and integrated global economy.

Without denying the real challenges of adjustment and change that liberalization presents, we must reaffirm our resolve to continue opening our markets—and not just in



*The reality of progress and hope: the circle of economic growth has spread to most parts of the world. (ILO Photo)*

developed economies, but in the developing world as well. The evidence is strong that countries which are prepared to liberate market forces and compete vigorously on the world stage can expect faster growth and more rapid development. The most impressive case, perhaps, is in some Asian developing countries where 1.5 billion people have, on average, doubled their income in the last decade.

Increasingly, an open trading system is also playing a crucial part in widening and deepening the flow of technology and information around the world—a process which is central to the enabling environment we need to create. Recent WTO agreements liberalizing global telecommunications services and information technology products are about much more than trade. They are about building the new infrastructure of the information age—in the same way that the expansion of railways and shipping in the nineteenth century provided the infrastructure for the industrial age. Equal access to this knowledge infrastructure will determine equal access to the technological and information tools of the future—which will in turn define the potential for growth and modernization in the developing world.

The next step in this process is to reach a successful conclusion to the current financial services negotiations this year—and to implement the mandate we have to examine the relationship between the flows of global trade and global investment. Like telecommunications or information technologies, financial services cannot be viewed through the outdated paradigm of importers versus exporters, North versus South. Whatever the country and its level of development, sustained growth in a competitive world economy now depends on access to a solid financial system and access to investment. Investment provides much needed capital; it is a pipeline for transfers of technology and managerial skills; and it can provide access to global production and distribution systems which in turn open up export opportunities.

Developing countries have a growing interest in liberalizing their financial sector and deregulating their investment regimes in order to build the kind of competitive financial



infrastructure they need for future growth. At the same time, developed economies have a clear interest in an agreement which will open the fastest growing markets to one of their fastest growing industries. And all sides in this negotiation have an interest in building a strong global financial system to support a strong global economy. A rules-based, multilateral playing field for financial services and investment—rather than a cat’s cradle of discriminatory bilateral or regional deals—will go a long way towards creating the enabling environment we are discussing today.

There is a third way the multilateral system contributes to the enabling environment. As the world becomes more interconnected economically, all countries—but especially the weakest and most vulnerable—will more and more need what the report calls a “fair, equitable, and transparent regime” of rules to manage their interdependence. This in turn calls for a full involvement by developing and transition economies in drawing up and using the multilateral rules, not limiting their focus to exceptions and special provisions.

I am pleased to note that developing countries are now far more active players in the functioning of the system. Between 1980 and 1994 developing countries were involved in less than ten per cent of the 120 disputes examined by the old GATT. But in the last two years alone, developing countries have initiated about half of the requests for WTO consultations or panels. And the active and crucial participation of developing countries over the last twelve months in negotiations on telecommunications services and information technology are clear evidence of their engagement and commitment to a system which belongs to them as much as to anyone.

### *An enabling environment for development*

The multilateral trading system is thus itself a key element in fostering an enabling environment for development. It helps countries at all levels of development relate to the basic fact of globalization within a framework that opens opportunities and provides the security of agreed rights and obligations.

Of course, it is not perfect. One particular area in which it has been recognized that we need to do more is the situation of least-developed countries—and doing so is leading us into improving the ways in which we work together with our partner organizations and governments. As the 1997 World Economic and Social Survey has noted, output per head has continued to decline on average in Africa through the 1980s and early 1990s. Indeed, the ratio of trade to GDP fell in 44 of 93 developing countries over the last decade, while the ratio to foreign investment to GDP fell in more than a third of these countries. While it is true that a number of least-developed countries have recently shown dramatic signs of turning their economies around—Africa’s growth of 4.3% last year was the best in two decades—it is also true that there remains much more we can do.

I have been very encouraged by the way in which WTO Member governments have responded to this challenge by adopting in Singapore a Plan of Action for the Least-Developed Countries. A major objective of this Plan is to ensure that all least developed countries have a strong voice in the WTO. After all, membership in the organization does not automatically mean that all countries have the resources to participate equally in the system. To fully reflect the interests

and objectives of least-developed countries, these countries have to be able to use it fully. A key contribution of the WTO, working closely with UNCTAD and the International Trade Centre, is technical assistance for building trade policy expertise in these countries. We are also employing new technologies much more extensively to extend the reach and the effectiveness of that assistance, and to make technical information more relevant to specific economic needs.

As you know, the Singapore Conference also called for a High-Level meeting for the least-developed countries, to be organized by the WTO with UNCTAD, the International Trade Centre and other major multilateral institutions, to forge an integrated approach. Preparations for this High Level Meeting are proceeding well. There is good cooperation between the six core agencies involved, and there is every indication that the Conference will yield positive results.

### *Integrated strategy*

The goal is to join with other multilateral institutions, and with least-developed countries themselves, to devise a new integrated strategy to assist their development; the kind of enabling environment that will help the least-developed countries to move from the margins of globalization to the centre.

It is clear that, as the World Bank has reminded us, building human and institutional capacity is fundamental to realizing these aims. In many countries, the existing social, health, and education systems are not even sufficient to meet basic human needs, let alone to prepare people to take advantage of the information economies and global markets of the future.

As the Secretary General’s report correctly emphasizes, the task begins with national governments themselves. But it does not end at national borders. In a world where economic opportunities and challenges increasingly transcend national borders we have to look to forms of international cooperation and new approaches to international governance. When trade has become thirty per cent of world GDP—and is projected to grow to fifty per cent by the year 2020—how else to define the management of sovereignty? By going back to nineteenth century ideas? Or by embracing the global rule-of-law, agreed by consensus, which extends, not limits, the ability of national governments to defend national interests in a world without borders? The fact remains that the international policy framework required to exploit today’s global opportunities and to manage today’s global challenges is not yet fully in place.

The need is not to discuss whether globalization is a good thing, but to ask two further questions. The first question we have to ask is “what would be the alternative?” It would be a world divided by economic and political nationalism—a world in which we would go down the road towards power-based relations, increased tension and violence, as history has taught us.

The second question—the real one we must answer—is how can we improve the present international system keeping it strongly based on the rule of law and on further lowering of barriers among people and countries.

We should try to lift our vision towards a greater coherence among national and international institutions. This, surely, is one of the most important keys to creating an enabling environment for development. □

## General Council

(Continued from page 1)

The Holy See thanked members of the General Council, and underlined international trade's role in promoting peace.

In welcoming the decision, Mr. Ruggiero said the Holy See had been playing a useful role in international relations, as shown by its contributions to the United Nations system. He said the WTO shares the Holy See's aim of fostering peace and well-being all over the world.

### Working Party on Azerbaijan

The General Council established a working party to examine the accession request of the Republic of Azerbaijan.

Azerbaijan is the last of the former Soviet Republics to have requested membership in the WTO. In its request, it said that it had been reviewing its trade regulations and introducing liberalization measures with a view to achieving consistency with WTO requirements.

### ITC Report

The report of the Joint Advisory Group on the International Trade Centre UNCTAD/WTO (ITC) on its 30th Session held on 21-25 April was

adopted. In the report, ITC said that cooperation with the WTO had been further enhanced in 1996 with the launching of the integrated programme for African countries.

Many delegations commended ITC's technical cooperation efforts in trade promotion.

### "Other Business"

Among the points raised:

- » The EC expressed concern over what it said were import financing restrictions taken recently by Brazil, which it said had an impact on trade as indicated by complaints it had received from traders. Brazil said the measures were not trade restrictive, and that it would continue informal consultations with the EC.
- » Norway requested information from the Director-General on the status of the WTO Secretariat's collaboration with the International Labour Office (ILO). This was in the light of the paragraph 4 of the Singapore Ministerial Declaration, which among other things states that the ILO is the competent body to deal with core labour standards and that the existing collaboration between the two Secretariats will continue. Mr. Ruggiero replied that, as in the past, the WTO had been observing ILO meetings, and that documentation had been exchanged

## MEETINGS

A tentative schedule of WTO meetings:

September	
8-10	Textiles Monitoring Body
15	Committee on TRIMs
15-16	Trade Policy Review: Benin
16-17	Working Group on the Interaction between Trade and Comp. Policy
18	Cttee on Trade in Financial Services
19	Council for TRIPS
22	WP on Professional Services
22-23	BOP Cttee (Czech Rep.)
22-24	Cttee. on Trade and Environment
23-24	Trade Policy Review: Chile
24-25	WP on Preshipment Inspection
25	Dispute Settlement Body
25-26	Committee on Agriculture
25	WP on Professional Services
26	Cttee on Trade and Development
29	Cttee on Market Access
30	International Dairy Council International Meat Council Cttee on Regional Trade Agrmts

between the two organizations. Many delegations expressed concern over the raising again of this issue in the WTO, which they said had been settled in Singapore. They said that the Declaration and the Chairman's concluding remarks made clear that the issue of labour standards belonged to the ILO. □

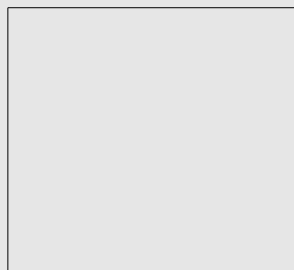
### WTO's data base becomes user-friendly

WTO members are to supply each year updated trade information to the WTO Integrated Data Base (IDB) for personal computers (PC's). The General Council adopted a decision—recommended by the Council for Trade in Goods—to this effect on 16 July. At the same time, delegations will be able to access IDB data through PCs by the end of the year under a decision taken by the Committee on Market Access in June.

The Chairman of the Committee on Market Access, Mr. M.O. Tagma of Morocco, reported to the Goods Council on 14 July that his Committee had agreed that the IDB would be redesigned to operate under PC technology to facilitate access by members. The PC IDB will contain members' annual submissions of bound and applied customs duties and imports by country of origin. Members will furnish the information in the detail of customs tariff lines on PC media. The Market Access Committee oversees the operation of the IDB.

At the Goods Council meeting, delegations rose to observe one minute of silence in honour of Mr. Philippe Obez, who was Chief of the IDB Section, Statistics and Information Systems Division. Mr. Obez, 53, passed away on 11 July 1997.

□



Mr. Obez: "father" of the WTO's Integrated Data Base.

### Tokyo symposium

Some 180 academics, business people and government officials commemorated the 50th anniversary of the GATT/WTO in a symposium held on 2 June in Tokyo. It was organized by Prof. Tomotsu Takase of Tokai University, formerly of the GATT Secretariat. Mr. Paulo Barthel-Rosa, Director of the WTO Council Division, gave the closing remarks. □

## WTO FOCUS

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