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GENERAL AGREEMENT ON TARIFFS AND TRADE

COUNCIL
11 November 1968

MINUTES OF MEETING

Held at the Palais des Nations, Geneva,
on 11 November 1968

Chairman: Mr. Carlos BESA (Chile)

1. Accession of Romania (L/3050)

In July the Government of Romania had addressed to the Director-General a formal application to accede to the General Agreement and the contracting parties had been informed of this application in document L/3050.

The representative of Romania (Mr. Mircea Petrescu, Director at the Ministry for Foreign Trade) in presenting his Government's application to the Council of Representatives, said that his Government pursued a policy of trade expansion and economic co-operation with all countries in the world without distinction, on the principle of strict observance of independence and national sovereignty, equality of rights and non-interference in the internal affairs of others. The socialist economy of Romania was developing rapidly. Romania was making intense efforts to become an industrially and agriculturally advanced country, so as to ensure a higher standard of living for its citizens. This expansion made it possible and necessary for Romania to extend its economic co-operation with all countries of the world. In 1967, the volume of Romania's trade was about US$3 billion,

i.e. 6.5 times that of 1950. During seven years, the trade balance had shown a deficit due to massive importation of plant and machinery in order to develop industries. However, the balance of payments was now assured. Payments for these imports had been scheduled over several years and, furthermore, there was a surplus from tourism and services.

The trade structure had undergone modifications during the period from 1950 to 1967. Romania now had trade relations with over a hundred countries, ninety of which participated in the activities of GATT comprising together 55 per cent of the total trade of Romania in 1967, compared with 38 per cent in 1960. Trade and economic co-operation with developing countries of Asia, Africa and Latin America had also developed rapidly. Between 1960 and 1967, trade with these countries had increased three times. More detailed figures and information regarding this trade would be found in a memorandum submitted by the Government of Romania to the secretariat for distribution.

It was clear that the development of Romania's trade represented not only an economic necessity but also a general policy. Because economic development was closely related to technical and scientific progress and to the extension of international co-operation, his Government was interested in developing all forms of co-operation with other countries of the world, on a bilateral and on a multilateral basis. It was in this context that Romania's interest in the GATT was conceived.

The General Agreement had an appropriate framework for consultations and negotiations with a view to finding practical solutions for the development of international trade. Thus, Romania which had concluded many treaties and agreements containing the most-favoured-nation clause with contracting parties, was interested in entering into negotiations with a view to establishing the terms on which it could accede to the GATT as a full Member. His Government expected that all trade facilities enjoyed among Members of the GATT would be used for the development of trade and economic exchanges between Romania and the contracting parties. Romania also wished to offer, within its economic possibilities, its own contribution. Greater access to international markets for Romanian exports would enable her to increase her imports.

Mr. Petresco concluded by hoping that a pragmatic approach would allow the contracting parties to find appropriate solutions for the accession of his country to the General Agreement.

Many members of the Council welcomed the Romanian application and expressed their readiness to examine in a working party, all the problems involved in settling the terms on which Romania might accede to the GATT under the provisions of Article XXXIII.

The representative of the United States welcomed Romania's application, but reminded the Council that his Administration had no legislative authority to apply most-favoured-nation treatment to Romania. Should this situation be unchanged at the time of Romania's accession, his Government would have to invoke Article XXXV.

His delegation wished to participate in the working party, provided this would not involve the United States in tariff negotiations with Romania in the sense of Article XXXV and that his Government retained the right to invoke that Article. Finally, he reserved the United States' right to negotiate concessions bilaterally with Romania, should this be desirable, at such time as the United States would be in a position to disinvoke Article XXXV.

It was agreed to establish a Working Party with the following terms of reference:

> "To examine the application of the Government of Romania to accede to the General Agreement under Article XXXIII and to submit to the Council recommendations which may include a draft protocol of accession."

It was decided that the membership would be composed of those contracting parties which indicated to the secretariat by the end of November that they wished to be members. Mr. T. Swaminathan (India) was appointed as Chairman of the Working Party.

The Chairman informed the Council that the Government of Romania had submitted a memorandum on its foreign trade and commercial policy. Copies were being prepared for distribution. He suggested that contracting parties wishing to obtain amplification or clarification of the memorandum should address their questions to the secretariat by mid December so that the Government of Romania could provide replies and explanations before the Working Party was convened.

2. French trade measures (L/3081)

The Chairman recalled that the Working Party which the Council had appointed on 5 July to examine the trade measures introduced by the Government of France had presented a first report to the Council at a meeting held on 19 July. The Working Party had met again in October and a report on this second meeting had been distributed in document L/3081.

Mr. Ryan (Australia), Chairman of the Working Party, said that the representative of France had given to the Working Party an account of certain modifications by way of relaxation which had been made by his Government and had emphasized that apart from these measures the programme announced had been carried out to the letter. It had been suggested in the Working Party that the danger

that the French measures might be regarded as a precedent still persisted and that the measures should be terminated as soon as possible. In reply, the representative of France had said that the programme being implemented strictly according to plan was a demonstration that the Government of France would adhere to the time-limits specified in its communication.

The Council took note of the Report on the second meeting (L/3081). In accordance with its terms of reference, the Working Party would continue to be available for consultation as necessary.

3. Israeli schedule - renegotiation (L/3085)

At its last meeting, on 13 September, the representative of Israel had informed the Council that a request would probably be made for authority to enter into renegotiations to modify or withdraw certain concessions in the Israeli schedule. The request for authority under paragraph 4 of Article XXVIII had been submitted in document L/3035, and copies of the list of concessions proposed for modification or withdrawal had been sent to contracting parties in document SECRET/182.

The representative of Israel said that his Government was firmly embarked on a course of reducing both tariff and non-tariff barriers in order to make the Israeli producers more competitive and bring about an expansion of trade. It was only in order to soften the shock of sudden exposure that some specific branches of production had to be protected by higher duties which would replace the previous administrative protection. As against those relatively few cases, there was a much larger number of items which would be liberalized without any compensation in the form of higher duties. Furthermore, the Government would shortly establish a time-table for unilateral regular annual reductions over a five-year period of all high protective tariffs, which would enable industry to adjust itself progressively to international competitive conditions.

The Government of Israel was convinced that even where tariff rates would go up, the effect of the combined new measures would in many cases be an increase in imports, because lower rates of duty were hypothetical as long as imports of the items were restricted. As soon as restrictions were removed, imports would rise, even at higher rates of duty, in order to satisfy the pent-up consumer demand for foreign products. Such had been the experience in the past when unbound tariff rates had been raised concurrently with liberalization. The increase in competing imports from abroad was actually a part of the planned process by which the home industries were to be made more competitive.

While convinced that its trading partners stood to gain from the new policies even in the short run, the Government of Israel was of course ready, as indicated in L/3085, to negotiate compensatory offers with those contracting parties which had initial negotiating rights or principal supplying interests. Since it was its intention to complete the negotiations as speedily as possible, the Government of Israel had already held preliminary talks with some of its major trading partners in the hope that the request for the authority to renegotiate would be approved by the Council and it was ready to open negotiations without delay with all contracting parties concerned.

The representatives of the United States and Switzerland supported Israel's request for authority to enter into renegotiations under Article XXVIII:4. They welcomed the move towards liberalization of imports, but regretted that it was accompanied by tariff increases.

The request was also supported by the representatives of the European Communities, Japan, Canada, Brazil and the United Kingdom. The representative of the United Kingdom said that his Government had an interest in half of the items to be renegotiated; he foresaw that the negotiations would be time-consuming, but provided the bilateral negotiations would be concluded by 1 April 1969, his Government would not raise objections against the entry into force of the increased rates on 1 January 1969.

The Council agreed that there were special circumstances in the sense of Article XXVIII:4 and granted the requested authority.

The Chairman requested that any contracting party which considered that it had a principal supplying interest or a substantial interest, as provided for in paragraph 1 of Article XXVIII, should communicate such claim in writing and without delay to the Israeli Government and, at the same time, inform the Director-General. Any such claim recognized by the Israeli Government would be deemed to be a determination by the CONTRACTING PARTIES within the terms of paragraph 1 of Article XXVIII.

4. Implementation of Poland Accession Protocol (L/3093)

In February the Council had appointed a Working Party to conduct the first consultation with the Government of Poland envisaged in paragraph 5 of the Protocol of Accession. The Working Party's Report had been distributed in document L/3093.

Mr. Langeland (Norway), Chairman of the Working Party, said that he wished to draw the attention of the Council to a few paragraphs in the Report where some additional comments might be called for.

It was pointed out in paragraph 7 that the texts of Poland's bilateral trade agreements had been published in conformity with the requirements of Article X of GATT. The representative of Poland had, in the course of the discussions in the Working Party, stated that he was prepared to make available to the secretariat the texts of the bilateral agreements as they had been published by Poland and the other countries concerned.

It appeared from Sections III and IV of the Report, which dealt with action taken or envisaged by contracting parties to remove discriminatory restrictions on imports from Poland and with Polish import targets for 1968 and 1969, respectively, that it had not been possible to reach full agreement in the Working Party on the extent to which information should be submitted by contracting parties in the first case and Poland in the second case under these headings. The Working Party had decided, as could be seen from paragraphs 16 and 21 of the Report, to request the secretariat to study the matter and prepare a document thereon, as soon as possible and in time for the next consultation. In that connexion it had been discussed in the Working Party whether an aim of the study should be to draft a standard notification form. It had been agreed that the Working Party did not need to express any opinion in that respect and that it would be up to the secretariat to decide in the course of the study whether it considered it useful to recommend the adoption of a standard form or not.

Mr. Langeland said that the Plan for the Annual Review, as annexed to the Protocol of Accession, had not fully applied in this first consultation, which had been of a somewhat experimental character. It had not been possible to reach full agreement on the procedure to be followed in the future on all points which had been discussed in the Working Party, but he believed that a good ground had been laid for the coming annual reviews.

The representative of Poland recalled that in many instances it had been possible to reach unanimity in the Working Party while in other instances there had remained differences of opinion, despite the efforts made. He wished to concentrate on the positive aspects and he thanked the contracting parties, listed in paragraph 11 of the Report, which had notified that they did not maintain any discriminatory restrictions on imports from Poland. He also wished to thank those which had stated their intention to continue removing the discriminatory restrictions maintained by them. He particularly welcomed the statement by the representative of the Council of the European Economic Community at the meeting of the Working Party on 25 June where it had been said that the member States had accepted without reservation the provisions of Poland's Accession Protocol, that they intended to respect the commitments they had then undertaken and that they had the intention to multilateralize progressively their trade with Poland in order to achieve the objectives of the Protocol.

Referring to document L/2934/Add.8 the representative of Poland pointed out that Poland had begun to fulfil its obligations under the Protocol of Accession on 1 January 1968. The data contained in Annex VII to the Report of the Working Party showed that the commitments had so far been met and Poland was firmly determined to continue to fulfil its obligations under the Accession Protocol.

The representative of the United States said the first consultation with Poland had been useful, but he hoped all contracting parties would review their position with regard to information to be supplied in order to make future reviews of maximum value.

The representative of the United Kingdom, in endorsing the Report, said that he was glad the Working Party had been able to agree on a text which constituted a useful starting point for future reviews. He recalled that the Government of Poland had in the course of the discussions in the Working Party submitted a considerable amount of useful information. In many cases, however, the material had been made available very late. It would facilitate the work in coming reviews if the information could be submitted well before the meetings of the Working Party. He also hoped that Poland would supply additional information on internal market conditions. The studies to be made by the secretariat had the support of the United Kingdom which would fully co-operate in them.

The representative of Canada supported the requests made by the representative of the United States and the United Kingdom for more complete data for future consultations.

The Council approved the Report and decided to recommend its adoption by the CONTRACTING PARTIES at the twenty-fifth session.

5. Reports under waivers

(a) Turkish stamp duty (L/3065)

The Chairman recalled that at the last session the CONTRACTING PARTIES had granted a waiver to the Government of Turkey permitting the maintenance of a stamp duty on imports, including imports of items with rates of duty bound under Article II of the GATT. In accordance with the requirements of this waiver, the Government of Turkey had provided a report on the operation of the stamp duty in relation to the implementation of its Five Year Plans. This Report had been distributed in document L/3065.

The representative of the United States said it was regrettable that Turkey had found it necessary to increase the stamp duty to 15 per cent and hoped this would be kept under review and reduced at the earliest possible occasion. The representative of Norway, speaking on behalf of the four Nordic countries, associated himself with the view of the representative of the United States.

The Council took note of the Report.

(b) United Kingdom/Article 1 (L/3064)

(c) United Kingdom Dependant Overseas Territories (L/3067)

The Government of the United Kingdom had furnished Annual Reports under the waivers granted in 1953 and 1955. These Reports stated that there had been no changes since the last session of the CONTRACTING PARTIES.

The Council took note of the two Reports.

6. Draft Report on the work of the Council since the twenty-fourth session (C/W/130)

The secretariat had distributed in document C/W/130, a draft of the Council's Report to the CONTRACTING PARTIES on the work it had carried out during the period since the last session of the CONTRACTING PARTIES.

The Chairman requested the secretariat to insert suitable additional notes on the action taken at this meeting.

It was agreed that the report, with these additions, would be distributed and presented to the CONTRACTING PARTIES by the Chairman of the Council.

7. Arrangements for the twenty-fifth session (C/W/131)

The Director-General's proposals for the conduct of business during the session were contained in document C/W/131.

Commenting on his proposals, the Director-General said that the work had been carefully programmed in view of the short duration of the session and in view of the fact that between 20 and 22 November there should be no plenary meetings. He recalled his Airgram of 24 October in which he had expressed the hope that high-level officials from capitals would meet during the last four days of the session, namely from 26 to 29 November. The secretariat had been advised that an important number of high-level officials would attend. The main item, No. 3 - Expansion of Trade - had been scheduled for Wednesday, 13 November, when reports would be presented by the Chairmen of Committees, followed by a more general statement which he proposed to make. Friday, 15th, had been reserved for the discussion of Item 3, so that delegations could express their views. In the same context it was hoped that the discussion of Item 4 - Import Restrictions Applied Contrary to GATT and not covered by Waivers - could also be initiated that day. Following these discussions, the Chairman would summarize the main

points made and a period of one week would be left for reflection before the two items were taken up again in the last days of the session. Other items would be disposed of by 25 November.

The Council agreed to recommend the Director-General's proposals for consideration by the CONTRACTING PARTIES at the opening meeting of the session.

8. United States wool-blend legislation

The representative of the United States said that on 24 October 1968 the President of the United States had signed Public Law 90-638, the major provision of which provided for all fabrics in chief weight of wool the rate of duty now applicable to certain fabrics in chief value of wool. Heretofore the rates of duty on blended fabrics, in chief weight but not in chief value wool, had been based on the rate applicable to the component material of chief value. These new provisions would be applied from 23 December 1968.

On signing the Public Law 90-638, the President had stated, "Importers have been able under the present tariff structure to escape the higher wool tariff by blending reprocessed wool fabrics with small amounts of high-value non-wool material. The addition of these other components has been for the sole purpose of establishing a lower duty and has not altered in any way the characteristics or use of the fabric."

In short, the fabrics in question had been developed for the specific purpose of exploiting "loopholes" in the basic United States tariff structure. Such "loophole" problems had arisen, for the most part, since 1960 when the United States had revised the tariff rates then applied to wool fabrics under paragraphs 1108 and 1109 (A) of the Tariff Act of 1930. The rates established for wool fabrics at that time had been generally higher than those applying to fabrics in chief value of other textile components. In connexion with these changes the United States had negotiated compensatory settlements with countries principally affected by the action. As a result of the higher wool duties, traders had begun to seek ways of avoiding the wool tariff by changing the products in order to change the tariff status of the imported fabric, without affecting its commercial use. One example was the blending of small quantities of high-value flax with large quantities of low-value wool to create a product subject to the lower duty on fabrics in chief value of vegetable fibre. The United States had closed this "loophole" in the Tariff Schedules Technical Amendments Act of 1965.

Public Law 90-638 was intended to provide a broader and more permanent solution to the "loophole" problem by requiring that any fabric which was in chief weight of wool (i.e., if the wool component was greater in weight than any of the other components) whether or not in chief value of wool, be subject to the wool fabric duties.

Because of the demand in the United States market for certain low-cost wool fabrics which were imported principally from Italy, the United States Government recognized that it would be contrary to the trade policies and best interests of the United States if the new tariff in fact proved to be prohibitive of legitimate trade in these fabrics.

Because of this concern, the President had requested the United States Tariff Commission to study and report to him by 31 December 1968 the effect of the duty established by use of the chief weight test and what simple ad valorem rate or rates of duty would provide a reasonable degree of tariff protection for the United States industry concerned.

In response to the President's request, the Tariff Commission had instituted an investigation on 28 October 1968 and had announced that a public hearing in connexion with the investigation would be held on 14 November. If, as a result of this investigation, the Tariff Commission determined that a lower duty was more equitable, the President had said that he "will request the Congress to take prompt action to establish the appropriate tariff rate". He had added, "Members of both Houses of Congress who are most concerned with this issue concur that congressional action on any tariff revision recommended by the Tariff Commission is proper and have agreed that any such proposal will receive fair and prompt consideration".

The representative of the United States informed the Council that when the United States Tariff Commission would have completed its study and when the necessary information would be available for meaningful consideration, he would take such measures as might be appropriate under the GATT. He said that the President's request for the study and his Administration's desire to assure equitable rates were positive factors which affected contracting parties should take into account in reacting to Public Law 90-638. He hoped that all concerned would be able to exercise restraint while the matter was under consideration.

The representative of the Commission of the European Economic Community thanked the representative of the United States for having taken the initiative to put this question on the Agenda. He said that the United States representative's statement was of interest to all contracting parties. The matter concerned increases in bound duties and called for the application of certain rules and procedures. He regretted that the United States had found it necessary to adopt such measures. The Community was affected by them; the volume of trade involved was of the order of $10-15 million (covering approximately seventy United States tariff positions), and because production was concentrated in certain regions these measures would create social difficulties. Furthermore, the products concerned were bought by low-income consumers; a high increase of duty on these products, which were already on the whole high, would thus tend to eliminate this trade. The United States representative had

referred to the closing of a "loophole"; in this context it should be noted that the American tariff contained approximately 160 positions covering the case of textiles containing wool. This tariff structure encouraged the choice of the most favourable formula, and it could even be said that each tariff position constituted a loophole in relation to any other tariff position with a higher duty. He also remarked that concessions on some of these items had been negotiated at a time when the trend of trade in these products was well-known by United States officials. In previous re-negotiations on these products, the Community had accepted compensation only in the light of alternative export possibilities contained in the United States tariff.

The Community was very favourable to the President of the United States' initiative to have a tariff study carried out and hoped that this procedure would lead to mutually satisfactory solutions. It was their expectation that the United States would have recourse to the appropriate GATT procedures before 23 December when the new rates of duty would be put into force.