

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Thirty-Ninth Session

SUMMARY RECORD OF THE SECOND MEETING

Held at the International Labour Office,
on Tuesday, 22 November 1983, at 10 a.m.

Chairman: Mr. B.L. DAS (India)

- Subjects discussed:
1. Report of the Council (continued)
 2. Statement by the Director-General concerning the establishment of a Study Group

Report of the Council (L/5582), continued

Point 1(d) Trade in Agriculture¹

Mr. HAMZA (Egypt) said that the work of the Committee on Trade in Agriculture was very important to Egypt's trade interests. His delegation hoped that in 1984 the Committee would move from the stage of examination of the measures that affected agricultural trade to consideration of steps that could be taken to further liberalize such trade.

(e) Tropical Products

Mr. JARAMILLO (Colombia) said that the Ministerial decision on this subject was very important given the fact that tropical products were among the prime exports of developing countries. The consultations held in November 1983 had not led much further than those held in 1982. But they had shown once again that there were still many obstacles to trade in these products. These obstacles and barriers had now been clearly identified, and Colombia hoped they could be eliminated through further consultations and appropriate negotiations in 1984 as requested by the Ministers.

¹ See also Point 5, page 12.

Mr. JAYASEKERA (Sri Lanka) said that his delegation welcomed the recent consultations on tropical products, although he could not be enthusiastic about their outcome. Responses from developed countries had apparently not been positive, with one or two notable exceptions. The history of efforts to liberalize trade in tropical products went back more than 20 years. At the 1963 Ministerial meeting, it had been decided to urge governments to remove revenue duties and internal charges on trade in tropical products not later than December 1965 (BISD 12S/41). Sri Lanka hoped that the responses at the consultations in 1984 would be more forthcoming so that there could be a satisfactory outcome before 1985.

Mr. BAJWA (Pakistan) said that tropical products was an area where rapid progress towards liberalization was possible, because most of these products were exported by developing countries and there was limited competition between developed and developing countries in this field. Pakistan had a major interest in these products, particularly in cotton and rice, where unfortunately there was competition between developed and developing countries. Trade régimes were such that developing countries were being robbed of their price advantage, which was the only advantage they had in trading in rice and cotton. His delegation strongly urged that some quick solutions be found to these problems. Pakistan was convinced that it was possible to find solutions which, while retaining protective coverage for domestic production in developed countries, could still preserve some of the price advantage of the developing countries. This was particularly true for rice, and Pakistan hoped that there would be some rapid movement in this direction.

Mr. CHAWANID (Thailand) said that his delegation attached great importance to liberalization of trade in tropical products and associated itself with the statements by the representatives of Sri Lanka and Pakistan.

Mr. HAMZA (Egypt) associated his delegation with the previous statements on this subject.

(f) Quantitative Restrictions and Other Non-Tariff Measures

Mr. PURI (India) said his delegation believed that the Group on Quantitative Restrictions and Other Non-Tariff Measures had got off to a good start. India hoped that the work of the Group in 1984 would be more sharply focused on examining the grounds on which quantitative restrictions and other non-tariff measures were maintained, and specifically on their conformity with the provisions of the General Agreement, so as to achieve elimination of those restrictions and measures which did not conform, as provided for in the Ministerial decision (BISD 29S/17).

Mr. JARA (Chile) associated his delegation with the statement by the representative of India. Furthermore, Chile considered that countries applying quantitative restrictions which were incompatible with the General Agreement should not necessarily wait to terminate them until completion of the Group's work; those countries should concentrate their action on paragraph 7(i) of the Ministerial Declaration, which contained a political commitment at the highest level to eliminate such measures or bring them into conformity with the General Agreement.

(g) Tariffs

Miss YNG-WONG (Pakistan) said that tariff barriers still impeded developing countries' access to markets of developed countries, despite successive multilateral negotiations in GATT which had resulted in trade liberalization through tariff concessions. Contracting parties should therefore consider the discriminatory tariffs facing developing countries, and study how tariff concessions were being eroded through increased quantitative restrictions, and through such practices as price or credit support measures which particularly prevailed in international trade in commodities.

(h) MTN Agreements and Arrangements

Mr. JAYASEKERA (Sri Lanka) said that the 1979 Decision by the CONTRACTING PARTIES to "oversee the operation of the system as a whole" (BISD 26S/201) had placed the Committees set up under the MTN Agreements squarely within the GATT. The Decision had also recognized that existing rights and benefits under the GATT of contracting parties not parties to those Agreements, including those derived from Article I, were not affected by those Agreements, and had also reaffirmed the intention of the CONTRACTING PARTIES to ensure the unity and consistency of the GATT system.

He noted that now, after three years operation of the MTN Agreements, many contracting parties had not yet been attracted enough to join them. He said this might be due to the fact that those countries felt they would not derive benefits commensurate with the obligations and responsibilities which would devolve on them as a result of accepting the Agreements. In most of the MTN Committees, less than one-third of GATT's 90 contracting parties were represented, and the number of developing country members was in some cases very low. This raised the question of how far the consistency and integrity of the GATT system was being maintained. He said that it was the view of some that there was now a system of two GATTs in operation, from one of which were excluded contracting parties that had not joined the MTN agreements, and these included the bulk of the developing countries. This problem had to be examined in depth, before it undermined the credibility of the whole GATT system.

Mr. HAMZA (Egypt) recalled that the 1982 Ministerial decision provided that the CONTRACTING PARTIES should review the operation of the MTN Agreements, and that the review should focus on the adequacy and effectiveness of those Agreements and the obstacles to their acceptance (BISD 29S/18). After several years operation of the MTN Agreements, many contracting parties had not yet been attracted to joining them. Among the reasons why developing countries were not enthusiastic about joining the Agreements were the inherent obstacles in certain codes that impeded adherence to them; and also the experience of signatory developing countries that in the implementation of the Agreements a number of developed signatories did not always take into account the provisions relating to special and differential treatment for developing countries.

He said it was appropriate that the CONTRACTING PARTIES should now give directions for the implementation of the Ministerial decision and that signatories to the Agreements should explore the reasons why developing countries were reluctant to join them. An earlier example that could serve as a precedent in this respect was the Working Party on Acceptance of the Anti-Dumping Code which the Council had established in 1970 with the following terms of reference: "To examine special problems of developing countries in connection with the Agreement on the Implementation of Article VI and any proposals and suggestions for a solution to these problems, which may lead to a wide and early acceptance of the Agreement; and to report to the Council" (BISD 22S/27). He said that the discussions in this Working Party had brought about certain amendments embodied in the present Anti-Dumping Code and had led to its wider acceptance. It might therefore be appropriate for the CONTRACTING PARTIES to consider establishing similar working parties to examine the special problems of developing countries in joining the MTN Agreements, and to examine various proposals that might lead to a wide and early acceptance of them.

Mr. HOTTON RISLER (Argentina) noted that his country had accepted various MTN Agreements such as the Arrangements Regarding Bovine Meat and Dairy Products, and the Agreements on Implementation of Article VII, on Import Licensing Procedures and on Technical Barriers to Trade. While these Agreements had functioned satisfactorily over the past three years in respect of some of the commitments such as notifications or replies to questionnaires, the majority of these Agreements had not proven capable of resolving substantive problems. He referred in this context to the Arrangements Regarding Bovine Meat and Dairy Products. In both cases, there was an acute crisis in international markets, increasing surplus production and a sharp fall in prices. In spite of this, the meetings of the International Meat Council and of the International Dairy Products Council had not gone beyond a simple exchange of views.

He said that Argentina was particularly interested in the Agreements relating to anti-dumping practices and subsidies and had participated in the open meetings of those Committees as an observer. His country's

experience, after attending various meetings, was that there were divergencies of views between the signatories of those Agreements and this had led to different interpretations of the same provisions. This showed the limited usefulness of certain provisions of the MTN Agreements. His country had also experienced that developed contracting parties had made use of the provisions of these codes for protectionist purposes, as shown by the proliferation of countervailing and anti-dumping duties affecting products exported from developing countries during the past two years. The understanding on minimum prices in the Anti-Dumping Code, and the attempt of one developed signatory to change certain rules on customs valuation, also illustrated attempts by developed contracting parties to interpret certain provisions in these agreements so as to meet their own trade needs. He concluded by saying that this showed there were two GATTs with separate provisions: the traditional General Agreement and the "sub-world" of the MTN Agreements and their interpretations. It was necessary to reaffirm the unity of GATT.

Mr. PURI (India) referred to document L/5517/Add.3 on the status of acceptances of MTN Protocols, Agreements and Arrangements and said that while there were 90 contracting parties to the General Agreement, the number of signatories to the MTN Agreements was very limited. Four years after the end of the Tokyo Round, it was time that the CONTRACTING PARTIES examined the reasons for this limited number of contracting parties subscribing to the MTN Agreements. This could be done with a view to examining whether the Agreements themselves had inherent deficiencies which made them less attractive to potential signatories, or whether potential signatories found it difficult to join the Agreements because of obstacles placed in their way. The purpose of this examination should, however, be to promote a wide membership of the Agreements. He stated that during operation of most of these Agreements the special treatment of developing countries had not been kept in view. Concessions from developing countries were being insisted upon, contrary to the principles of differential and more favourable treatment. Operation of the codes also appeared full of rigidities which discouraged developing countries from joining them. He emphasized that the MTN Committees and Councils had a special responsibility for working towards more universal acceptability, particularly among developing countries. His delegation was willing to consider any proposal aimed at improving the situation, including the proposal made by the representative of Egypt.

Mr. JARAMILLO (Colombia) stated that little had been achieved in the field of the MTN Agreements since 1979. His delegation had drawn the attention of the CONTRACTING PARTIES at each of their sessions to the two GATTs which had resulted from the functioning of the MTN Committees. He drew attention to the Ministerial decision on this subject, and said that his Government believed the MTN Committees should more actively implement that Ministerial decision. His delegation had already explained in the

Committee on Subsidies and Countervailing Measures the problems confronting Colombia in terms of accession to that code. He suggested that consideration be given to the proposal made by the representative of Egypt.

Mr. BAJWA (Pakistan) said that the MTN Agreements were now a major instrument for the regulation of international trade. It was a matter of concern that participation in the MTN Agreements was limited, as if they were designed only for a few countries. His delegation supported the proposal by the representative of Egypt.

(i) Structural Adjustment and Trade Policy

Mr. PURI (India) said that the Working Party's report (L/5568) was a useful document for understanding the adjustment process, even though its contents revealed only modest progress in achieving structural adjustment through fulfilment of GATT objectives. It had become clear that while successive rounds of trade negotiations in GATT had led to lowering tariff barriers and had to some extent helped the process of structural adjustment, the degree varied considerably from sector to sector. New forms of non-tariff barriers continued to be used; some of these were ostensibly legal instruments, such as countervailing and anti-dumping duties, but they were being applied in a discriminatory and protective manner especially against the trade interests of developing countries.

He said that some sectors clearly displayed rigidities which slowed down the adjustment process. These were sectors where protective measures had been repeatedly taken and intensified. The major requirement now was for an assessment of the extent of adjustment that had taken place in the developed economies. Such an assessment could indicate the sectors where the developed economies had lost comparative advantage, and where importing and exporting countries could fruitfully consider transferring production lines in a gradual and phased-out manner to those countries which clearly enjoyed comparative advantage, or where the long-range potential of dynamic comparative advantage clearly existed. This could form a useful basis for the second phase of work in GATT on this issue. He recommended that the Council Chairman hold consultations to set up an appropriate mechanism for this purpose, so that the Council could at an appropriate time take the necessary measures.

Mr. PEREN (New Zealand) said that the Working Party's report could help contracting parties address the problems of structural rigidities that lay at the root of many current trade difficulties. The report had identified problem areas, notably in textiles and agriculture, where the link between inadequate trade liberalization and failures of adjustment were manifest. He said the report had gone some way to addressing the concerns in paragraph 7(i) of the Ministerial Declaration. In New Zealand's view, it would scarcely be possible for contracting parties to live up to the commitments in that crucial paragraph without appropriate action in the field of domestic structural adjustment. His Government therefore believed that work in this area should continue in GATT.

Mr. BAJWA (Pakistan) said his delegation agreed with the view that work on structural adjustment should concentrate on existing structural rigidities. Pakistan believed that contracting parties should now actively work towards drawing up a multilateral instrument for structural adjustment. Without work in this direction, the exercise on structural adjustment risked remaining somewhat academic.

Mr. NYERGES (Hungary) emphasized the intimate relationship between trade policy and structural adjustment, and said the lack of structural adjustment so far had negative effects on international trade. There had been no substantial progress in structural adjustment in important sectors such as agriculture and textiles; he suggested that future work should concentrate on these two areas.

Mr. KACZURBA (Poland) expressed support for continuation of the work on structural adjustment and its relation to trade policy. The future frame of these activities should be determined in the GATT Council and in other appropriate GATT bodies.

Mr. HAMZA (Egypt) expressed support for the course of action suggested by the representative of India. Work on structural adjustment should continue; it should concentrate on making concrete proposals to encourage policies that promoted structural adjustment, particularly in sectors relevant to the export interests of developing countries.

Mr. PATRIOTA (Brazil) said that work on structural adjustment should proceed in GATT and hoped that an appropriate mechanism would be drawn up for this purpose.

Mr. JARA (Chile) said that the conclusions of the Working Party's report were very important and should be taken into account by other GATT bodies in the course of their normal work. Work on structural adjustment should continue so as to detect more precisely the existing rigidities, especially in the trade policies of developed countries, which tended to slow down the process of structural adjustment, impairing international trade in general and the export interests of developing countries in particular. He supported the suggestion made by the representative of India that the Council should consider setting up appropriate mechanisms to continue this work.

Mr. BLANKART (Switzerland) that the Working Party's report was highly instructive and some progress had been made in understanding the relationship between structural adjustment and trade policy. It was not surprising that some should wish to extend that understanding by undertaking, for example, sectoral studies. However, it was important to consider whether such studies were likely to lead to practical, operational results. In the context of the General Agreement this did not seem likely, because structural adjustment was a dynamic process in which national economies had to react continuously and simultaneously to a number of different factors, of which trade was only one, although it

was probably the most important. While Switzerland recognized the impact that an open trade system could have on continuous and progressive adjustment, his delegation believed it was illusory to think of any regulation per se of structural adjustment in the GATT context. It was therefore entirely appropriate to examine first the effects of any trade policy measure and of any modification of trade policy on the process of structural adjustment. This appeared to be the most effective course because it was, ultimately, the only practical one. This would not exclude the possibility, should the need later be felt, of taking up the matter again to see what progress had been made.

(j) Trade in Counterfeit Goods

Mr. BAJWA (Pakistan) said his delegation believed that this was not a problem of trade but of protection of patents. Pakistan believed that so-called trade in counterfeit goods had an expansionary rather than restrictive effect because it took place in lower rather than higher reaches of the markets.

(l) Export Credits for Capital Goods

The CHAIRMAN recalled that the Ministerial decision on this subject (BISD 29S/19) requested the Director-General to consult with the contracting parties concerned and report to the 39th session.

Mr. KELLY (Deputy Director-General) reported that following the Ministerial request, consultations had been held with a number of developing and developed contracting parties on this matter. In these consultations it had been noted that the OECD Arrangement on Guidelines for Officially Supported Export Credits, which dated back to the mid-1970s, had recently undergone a modification providing for lowering the minimum interest rates to be charged for export credits, and also for a mechanism for automatic adjustment of those rates every six months depending on the movement of interest rates in certain key currencies.

He said that representatives from industrialized countries had underlined that in their deliberations which had led to the modifications of the Arrangement, they had fully taken into account the recommendation contained in paragraph 2 of the Ministerial decision. Interest rates for export credits extended to developing countries had been set at 9.5 per cent, i.e. more than two-and-a-half per cent below the rate established for "relatively rich" (category I) countries. To this extent, developing countries had been accorded more favourable treatment in the context of the revised Arrangement.

He added that developing country representatives, while recognizing the efforts made in their favour, requested that in the interest of full transparency in this area, the secretariat should be asked to obtain the text of the Arrangement from the OECD and circulate it to all contracting parties. The secretariat hoped to be able to circulate the text of the Arrangement in the very near future.

Mr. BRILLANTES (Philippines) said that his delegation had read newspaper reports about the revised Arrangement, but on the basis of these had found it very difficult to analyse this matter in terms of paragraph 2 of the Ministerial decision. While awaiting the official transmission and availability of the new Arrangement to the CONTRACTING PARTIES, the Philippines remained convinced that an arrangement on export credits should reflect an understanding of developing countries' needs and should be adequate to meet their requirements.

His delegation wanted to make a few suggestions. The first was that laying down fixed interest rates for all currencies gave rise to unreasonable and unrealistic discrepancies. Fixing interest rates across the board may have worked in the past when they were in close concert. In present conditions, when rates varied substantially, the concept of uniformity was not realistic. Second, the arbitrary determination of minimum and maximum maturities ignored the fact that developing countries' efforts to lay down basic infrastructure and industry were a long-term enterprise. For some projects, a period of 20 years might be appropriate, and maturities should be realistic to take account of such long-term industrialization efforts.

He said that the merits of export credits as a potential form of development finance were understood. In present economic conditions, the guarantee element in export credits increased enthusiasm to provide resources for new productive investments. But export credits had to be structured on terms appropriate to the specific projects to which they related. Export credit norms and disciplines should take account of the principles in Part IV of the General Agreement, which recognized that the rapid expansion of the less-developed contracting parties' economies would be promoted by diversification and by avoidance of excessive dependence on exports of primary products.

His delegation urged that appropriate official steps be taken for the text of the revised Arrangement to be made available to the CONTRACTING PARTIES. There was an elementary need for transparency on such an important matter. Moreover, it should be open for any interested contracting party to have appropriate recourse to consultations with any other contracting party on the operation and implementation of the revised Arrangement in terms of, and within the spirit of, paragraph 2 of the Ministerial decision.

(m) Textiles¹

Mr. PURI (India) said that the Ministerial decision on textiles and clothing (BISD 29S/20) was crucially important to some developing countries such as India, for which exports in textiles and clothing -- currently subjected to a régime constituting a derogation from the GATT -- amounted to the single largest item by value in its exports.

¹See also Point 6, page 13.

His delegation looked forward to receiving the textile study being undertaken by the secretariat. India hoped that the study would focus objectively on the elements contained in the Ministerial decision. In particular, India hoped that the study would avoid the temptation of asymmetry, which sometimes unconsciously found its way into an examination of the restraints and restrictions applied by developed importing countries under the derogation of the MFA. These restrictions could not be viewed in terms of the issue of reciprocity and could not be treated on the same basis as the trade régimes maintained by developing exporting countries that were allowed to maintain certain import measures for balance-of-payments purposes and under other legal GATT provisions.

Mr. BAJWA (Pakistan) said that textiles represented a major segment of international trade and constituted a perennial problem for the trade and development of developing countries. These countries naturally resented textiles being outside the GATT. Pakistan keenly looked forward to the forthcoming study on textiles. His delegation wanted to emphasize that in any negotiations, extra-legal rights could not be negotiated for legal rights.

Mr. HAMZA (Egypt) associated his delegation with the previous statements on this sub-point.

(n) Problems of Trade in Certain Natural Resource Products

Miss ARCINIEGA (Peru) welcomed the studies by the secretariat on non-ferrous metals and minerals. She said that developing countries producing raw materials, in particular non-ferrous ores and metals, continued to suffer from fluctuating and depressed prices. Consultations should continue to examine trade barriers in the field of semi-manufactured and manufactured goods produced from these resources.

(p) Dual Pricing and Rules of Origin

Mr. AUGÉ (Customs Cooperation Council), speaking as an observer, gave some information regarding that organization's work on origin of goods. He said that the CCC had been concerned with this problem since 1953, following a GATT questionnaire on the subject, and since then it had drawn up several international instruments on origin: in 1963, there had been the Recommendation on "Communication of Information Regarding the Customs Situation of Goods"; in 1973, the CCC had adopted a standard form for certification of origin, and had prepared three annexes on origin and documentary proof of origin in the context of the "International Convention on the Harmonization and Simplification of Customs Procedures" (Kyoto Convention).

More recently -- because customs administrations had encountered growing difficulties in applying and verifying the rules of origin adopted under a number of trade and preferential agreements -- the CCC had decided in 1982, at the request of most of its member States, to

prepare a list of rules of origin that were particularly difficult to apply and verify, and to help countries to eliminate these from their systems. The CCC secretariat had therefore made a comparative study of the main rules of origin in existence (in particular those whose application could give rise to difficulties), and was currently engaged in identifying difficulties encountered by customs authorities in determining and verifying rules of origin.

He concluded by saying that the CCC's work on origin was carried out in a customs technique perspective. This work should nevertheless enable the CCC to make a contribution to any work that GATT might undertake on this subject. The excellent collaboration existing between GATT and the CCC in this area, as in others, was beneficial.

(t) Other remarks made by representatives

Mr. ABBOTT (European Communities) said this his delegation had taken note of all the observations and suggestions made in the discussion on Point 1. During 1983, the contracting parties had concentrated on setting up the necessary machinery to implement the work program drawn up by Ministers in November 1982. Between this and the next session of the CONTRACTING PARTIES, there would be the much harder task of using that machinery to accomplish the objectives in the Ministerial Declaration. The Community would continue to contribute actively towards this goal. But he stressed that this program constituted a delicate package which had to be implemented in a fully balanced way. Only on such a basis would the CONTRACTING PARTIES, at their 1984 session, be able to reach a global assessment of the situation in order to reflect on their work for the second half of the 1980s.

Point 3. Consultative Group of Eighteen (continued)¹

Mr. BAJWA (Pakistan) said his delegation was pleased that in 1983 the Group had devoted a major part of its discussions to the linkage between international trade and financial flows. It was important that there was a growing realization in GATT about broader policy developments which could seriously affect the international trading system. Pakistan believed in co-operation among all international organizations, which had a certain similarity of objectives though not necessarily of outlook. Co-operation between GATT and the IMF could be useful if it was oriented towards resolution of international trade problems where external factors had a major impact on international trade, particularly for the developing countries. Such factors included issues of debt servicing, interest rates, exchange rates and financial flows. However, while working out appropriate modalities for GATT/IMF co-operation, care should be taken that this process did not become counter-productive by either threatening the position or the principles of GATT, or by being overbearing on the developing countries. Such co-operation should focus on the central dilemmas facing the trade of developing countries, namely the commercial policies of developed countries.

¹ See also SR.39/1 and SR.39/4

Point 4. (a) GATT concessions under the Harmonized Commodity Description and Coding System

Mr. AUGÉ (Customs Cooperation Council), speaking as an observer, recalled that in June 1983 the CCC had adopted the Convention on the Harmonized System, which was now open for signature by States and by economic or customs unions. He said that the text of the Convention and its Annex (the new nomenclature) would be available in printed form in December 1983. The CCC secretariat was at the disposal of contracting parties and the GATT secretariat to give any technical aid that might be needed in connection with the transposition of customs tariffs.

Point 5. Trade in Agriculture¹

Mr. HOTTON RISLER (Argentina) said that the Ministerial decision on trade in agriculture (BISD 29S/16) was of particular interest to his Government. In past rounds of GATT multilateral trade negotiations, this sector had been neglected, probably almost as much as that of residual restrictions. Certain contracting parties, furthermore, had not respected competitive practices, creating anarchy in the world's agricultural markets. He recalled that in paragraph 7(v) of the Ministerial Declaration, the contracting parties had undertaken "to bring agriculture more fully into the multilateral trading system, to seek to improve terms of access to markets, and to bring export competition under greater discipline". As a developing country whose main earnings came from agricultural exports, Argentina hoped that the contracting parties would decide to respect that commitment.

With reference to the work carried out in the Committee on Trade in Agriculture in 1983, his delegation considered that the review of contracting parties' domestic policies had brought about greater transparency concerning import and export practices. But this was not an end in itself; the ultimate aim was to achieve substantial liberalization of agricultural trade. For this, at some time, contracting parties would have to undertake to eliminate non-tariff barriers affecting market access, and also to commit themselves to respect the interests of other contracting parties where export practices were concerned.

Appropriate recommendations would have to be made to the Council or to the CONTRACTING PARTIES not later than their 1984 session. This did not leave much time, and within the very near future certain developed contracting parties should show political will to reduce practices that distorted international agricultural trade. Argentina believed that possible solutions in this area would imply sacrifices for those contracting parties which had maintained practices of doubtful legality in terms of the General Agreement; however, pragmatic solutions should allow those contracting parties to carry out a gradual process of readjustment.

¹See also Sub-Point 1(d), page 1.

Mr. PURI (India) said his delegation recognized the fact that a large number of contracting parties had consistently felt that the issue of trade in agriculture had received less than equitable treatment in terms of the provisions and application of GATT rules; some of them had even suggested that the entire sector of trade in agriculture fell within the so-called "grey area". The progress report of the Committee on Trade in Agriculture showed that all countries which had supplied information on their agricultural policies applied a more or less extensive panoply of restrictive practices affecting both agricultural imports and exports. The report had also said that governments had justified these measures by invoking different articles of the General Agreement. It had to be appreciated, however, that there were provisions of the General Agreement enabling developing countries to maintain many of these restrictions. The Ministerial decision had stipulated that in carrying out the task for which the Committee on Trade in Agriculture would be established, full account should be taken of the special needs of developing countries, in the light of GATT provisions providing for differential and more favourable treatment. India hoped that during the second year of its work, the Committee would pay closer attention to the special dispensations available to developing countries.

Mr. BAJWA (Pakistan) said his country had a major interest in this subject because trade in agriculture accounted for about one half of its foreign trade. His delegation considered that the Ministerial decision on agriculture, despite its obvious limitations, constituted a turning point indicating the resolve of the CONTRACTING PARTIES to address themselves seriously to the problems of trade in agriculture. The Committee had started its work well, but Pakistan expected it now to enter more constructive deliberations on the policy issues. Problems of trade in agriculture could only be resolved by correctly tracing their origins and by boldly embarking on dismantlement of policies which were prejudicial to liberalization of trade in this sector.

Mr. DARSA (Indonesia) said that the cross-examination of trading policies in the Committee had shown that contracting parties had all resorted to a broad range of restrictive measures affecting both agricultural imports and exports, in many cases with the perception that their GATT rights permitted them to take such measures. It was clear that there were many different interpretations of the GATT provisions. Trade in agriculture had been treated in GATT in a substantially different way from industrial products. Therefore, Indonesia recommended that the Committee examine this matter further, and bring agricultural trade fully under the effective rule of GATT disciplines.

Point 6. Trade in Textiles¹

Mr. BAJWA (Pakistan) said it was difficult to engage in a thorough discussion of this problem area of international trade at this session of the CONTRACTING PARTIES, because the latest report of the Textiles

¹ See also Sub-Point 1(m), page 9.

Surveillance Body had not yet been released. Pakistan considered it odd that the Textiles Committee traditionally met after the annual session of the CONTRACTING PARTIES, as if to confirm that textiles were outside GATT's purview. His delegation was keenly awaiting the study on textiles, as called for by Ministers (BISD 29S/20), and hoped that its analysis would be thorough and honest, and that it would facilitate the return of trade in textiles to the disciplines of the GATT. Pakistan suggested that the CONTRACTING PARTIES consider that future annual meetings of the Textiles Committee be held before CONTRACTING PARTIES sessions, so that the CONTRACTING PARTIES would have the benefit of the report on the most recent discussion in the Committee.

Mr. JARAMILLO (Colombia), Mr. HAMZA (Egypt) and Mr. NOGUEIRA BATISTA (Brazil) supported the proposal made by the representative of Pakistan.

Mr. EBERHARD (Switzerland) said that it was important to undertake the work called for by Ministers, and in particular to consider, in due course and on the basis of the studies now being prepared, the régime applicable to international trade in textiles upon the expiry of MFA III. Switzerland would like to see a successful outcome to the serious efforts which had been made to achieve fuller liberalization of this trade. His delegation believed that it would be difficult to extend the MFA again without making it less restrictive and without extending it to cover other instruments of trade policy such as customs duties, non-tariff barriers and even protection of industrial property. This would be the only way of achieving a better balance of rights and obligations in the event that full application of the provisions of the General Agreement, which Switzerland would like to see restored, proved to be difficult or impossible.

Point 7. Balance-of-payments import restrictions

Mr. BAJWA (Pakistan) said that consultations in the Committee on Balance-of-Payments Restrictions had acquired greater importance because of recent developments and difficulties in the international financial system. Pakistan had noted with concern that in recent years ideas had been floated which challenged the rights enshrined in GATT's balance-of-payments provisions, and increasingly the developing countries were being expected to forego some of these rights in the interest of trade liberalization. The balance-of-payments difficulties of the developing countries showed that this group of contracting parties had been taking on a disproportionate share of the burdens of the international adjustment process. Unless those burdens were lightened, the developing countries would be unable to continue with their import liberalization policies. To enable them to do that, the commercial policies of developed countries would have to allow greater access for imports from developing countries. In the view of the current economic situation and the discussion in the Consultative Group of Eighteen on linkages between international trade and financial flows, the work of the Committee had assumed special significance. Therefore, the CONTRACTING PARTIES should give serious thought to how the work of the Committee could be reoriented in line with current and prospective requirements.

Point 8(b)(ii) United States - Article XIX action on imports of certain specialty steels

Mr. ABBOTT (European Communities) said that the Community's views on the justification for the US measures against imports of certain specialty steels, as expressed in the Council at its meeting in July 1983, had been amply confirmed by further analysis of the situation. The average production level for specialty steels in the United States, for those products which were subject to quotas, had been about one million tons in the years 1978-81, and that level had fallen somewhat during 1982. However, for each of the first three quarters of 1983, the figures had been rising so that the 1983 US production levels would be at least as high as the average just mentioned. The Community therefore concluded that US production of these specialty steels had returned to its normal level since the end of 1982, and that the industry would benefit from the substantial economic growth prospects in the United States. The US measure had apparently been designed as a classical Article XIX action (being transparent and degressive), but it was not justified by the economic circumstances of the industry concerned which had now substantially altered. The Community had held a number of consultations with the United States on this matter under the provisions of Article XIX, and this process was continuing. No mutually satisfactory solution had yet been arrived at, so the Community would proceed shortly to a final assessment of this case, and would at that time draw the conclusions following from the analysis just described.

Mr. EWERLOF (Sweden) recalled that Sweden had expressed on several occasions its regret at the decision by the US President to restrict imports of specialty steels. Sweden still considered that the problems of the US specialty steel industry had not been caused by imports, but were the result of unresolved structural adjustment problems and the general state of the economy. The restrictions were now a fact that exporters would have to live with. Sweden was one of the exporting countries most seriously affected, even though it had been granted national quotas after consultations with the US Government in accordance with Articles XIII and XIX. His authorities would follow developments in the US specialty steel industry closely, and would expect the United States to ease the restrictions as the US economy recovered.

Mr. MURPHY (United States) said that his authorities appreciated the sensitivities of a number of countries on this issue. However, he noted that some of those countries had their own restraints, and therefore he hoped that in their turn they would be a little more sensitive to US concerns in this regard. Consultations were still taking place. The United States was meeting its GATT obligations and it hoped to arrive at a mutually satisfactory solution. There was a provision under US law for review of the specialty steel action, and if circumstances changed, the President had the authority to change the restraints. Whether this would be possible or not depended on overall economic circumstances.

Point 11(b)(ii) European Economic Community - Sugar régime

Mr. BONDAD (Philippines) said that sugar was an important source of foreign exchange earnings for his country, which was disappointed that it had not been possible to reach agreement on a new international sugar agreement. The consultations in March 1983 and the negotiations in October on this matter had not led to any success. Participants in the negotiations were well aware of the reasons for this. However, the Philippines looked forward to the resumed negotiations reaching a new agreement.

Miss YNG-WONG (Pakistan) said that her country had recently become a sugar exporter but had found that its sugar exports were inhibited by the prevalent sugar régime, which placed a heavy financial burden on efficient exporting countries and did not enable them to realize their full export potential. Pakistan therefore looked forward to the resolution of problems affecting sugar trade both within and outside the GATT.

Point 11(c)(i) Japan - Measures on imports of leather

Miss YNG-WONG (Pakistan) said that her country was a significant exporter of various kinds of tanned or semi-tanned leather and therefore had a major interest in this matter. Her delegation felt that the Japanese trade régime in these products tended to forestall the possibilities of exports of high value-added leather and gave scope for discriminatory quotas. Pakistan therefore believed that this was an area particularly suitable for showing some forward movement.

Point 11(c)(ii) Japan - Nullification or impairment of benefits accruing to the European Economic Community under the General Agreement and impediment to the attainment of GATT objectives

Mr. ABBOTT (European Communities) recalled that this matter was still before the Council. Consultations with the Japanese authorities were continuing and the Community still hoped that in one way or another a satisfactory resolution of these problems would be found.

Mr. CHIBA (Japan) said that he had taken note of the intervention by the representative of the European Communities. Japan's position on this problem remained unchanged. His delegation hoped that the various problems between the Community and Japan would be resolved in a satisfactory manner.

Point 12. United States Tax Legislation (DISC)
- Follow-up on the Report of the Panel

Mr. ABBOTT (European Communities) said that this matter remained in the forefront of the Community's preoccupations. The Community was expecting that legislation would be passed in the United States to

resolve this issue. He recalled the concerns which the Community had expressed about the direction of the current US legislative process towards amending the DISC legislation. The Community would continue to monitor progress in this matter, which was of interest to the CONTRACTING PARTIES as a whole.

Point 14. European Economic Community - Quantitative restrictions on imports of certain products from Hong Kong
- Follow-up on the report of the Panel

Mr. CHAU (United Kingdom on behalf of Hong Kong), said that the Panel's report (L/5511) was a model of clarity and precision and was a credit to the GATT and to its system of dispute settlement. It had vindicated Hong Kong's position and had recommended the termination of the French quantitative restrictions in question. Also commendable were the French and EEC authorities for the readiness with which they had agreed to the Council's adoption of the Panel's report. However, almost six months had passed since the Council had recommended the termination of the quantitative restrictions in question, and regrettably, out of the eight products in question, only three had so far been liberalized, accounting for only 1.5 per cent of the total trade involved.

He said that no indication had been given as to when the EEC and French authorities were going to terminate the restrictions on the remaining five products, which accounted for 98.5 per cent of the total trade covered by the CONTRACTING PARTIES' recommendation. His delegation understood that in respect of the most important item, quartz watches, which accounted for the bulk of the trade in question, the EEC authorities had initiated an internal investigative procedure. Hong Kong was confident that in pursuing this investigation, the Community would have full regard to its obligations and to the rights of others under the GATT. In the meantime, the initiation of this procedure could not be used as an excuse for further delaying the termination of the restrictions on quartz watches.

He recalled that the Council had agreed to revert to this item at its next meeting. Rightly so, because, under both the 1979 Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210) and under the 1982 Ministerial decision on dispute settlement (BISD 29S/13), the CONTRACTING PARTIES and the Council had a duty to keep such matters under surveillance and regular review. Follow-up action was particularly important in this case, because the party which had brought the case to the CONTRACTING PARTIES was a developing territory. The importance of this issue could be seen from the fact that when the Council had considered the Panel's report in July 1983, eighteen delegations, apart from the parties to the dispute, had supported adoption of the report. When the matter had been reviewed by the Council in November, it had been referred to as a test case, and many delegations had expressed concern about the functioning of the dispute settlement mechanism as it related to this case. He concluded by saying that his delegation had the right to expect that by the time of the next Council meeting all the remaining restrictions would have been removed.

Mr. NYERGES (Hungary) said that on the 10th anniversary of a commitment by the Community to Hungary on a similar case, which the Community had so far not fulfilled, his delegation would have been glad to be able to report that EEC quantitative restrictions not consistent with Article XIII had been terminated.

Mr. ABBOTT (European Communities) said that he had taken note of the statements on this point. He appreciated that the representative of the United Kingdom on behalf of Hong Kong had referred to this case as a model of rapid adoption of a panel report. This was a good development for dispute settlement in the GATT. The Community did not share the views expressed by the representative of Hungary.

Point 16(e) United States - Agricultural Adjustment Act

Mr. BAJWA (Pakistan) expressed his authorities' appreciation that the US Government had been trying to take measures to redress the effects of its policies on the trade of other countries. However, Pakistan's impression was that these measures had not been effective in achieving the desired objective. The situation was particularly bad in respect of cotton, a commodity generally exported by the developing contracting parties. US surpluses of cotton, and the trade policies devised to dispose of those surpluses, posed a serious problem for cotton-exporting countries. Unfortunately, the UNCTAD negotiations on cotton were stalled; and there was no forward movement in GATT. While hoping for some bold initiatives by the United States, Pakistan suggested that contracting parties which were cotton exporters could organize periodic consultations to find ways of limiting the adverse impact of trade policies on cotton.

Point 19. Poland - Suspension of most-favoured-nation treatment by the United States

Mr. KACZURBA (Poland) noted that this was the second consecutive session of the CONTRACTING PARTIES at which the US suspension of most-favoured-nation treatment of Poland was being raised. During the intervening year, the Council had considered this issue, and some informal contacts had been held. However, no progress could be reported on this matter. Quite the contrary. Developments over the past year had demonstrated the distinctly political nature and the aims of the US action. It was regrettable that the prestige of GATT as an organization, and of its legal provisions, had been abused in pursuit of objectives which contradicted the undertaking in the 1982 Ministerial Declaration "to abstain from taking trade measures for reasons of a non-economic character" (BISD 29S/11). It was also disturbing that the US action contravened the procedures envisaged in the 1979 Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210) and the relevant provisions of the General Agreement itself.

He said that Poland had acceded to the GATT in 1967, intending to expand its trading relationships with the greatest possible number of nations, and to contribute its input to world trade based on the firm foundation of GATT rules and objectives. Such motives were behind Poland's commitment to increase its imports from other contracting parties. The essence of this commitment was to open up Poland's market to a two-way interaction in which increased imports, based on the principle of comparative advantage of Poland's trading partners, would be used to meet its domestic economic requirements and to sustain and upgrade its export-oriented potential. If the terms of Poland's accession were interpreted as a commitment to liberalize access for an expanded volume of imports, this obligation had been fulfilled almost four times over in the 1970s. This trade expansion had occurred despite many previously unforeseen developments in the world economy, which had delivered a hard blow to world trade and which had played havoc with the optimistic trade projections of the early 1970s.

He said he wanted to stress this point because, according to official US trade statistics, the rate of increase in Polish imports from the United States between 1967, the year Poland acceded to the GATT, and 1981, had averaged 19 per cent per annum, as against 7 per cent provided for in the terms of Poland's Protocol of Accession (BISD 15S/46). Consequently, the current value of those imports had increase tenfold in the 1970s, and in 1981 the value had been more than four times greater than the formal Polish commitment. The unconditional MFN treatment mutually exchanged between Poland and the United States, long before Poland joined GATT, and consolidated subsequently by its accession, had been one of the principal sources of this dynamic development of trade, and had positive ramifications for other areas of economic interaction. The unilateral suspension of MFN treatment of Poland by the United States in October 1982, taken as a political measure in the context of exclusively domestic, political developments in Poland, had had a dramatically disruptive effect for this multidimensional relationship.

He said that a comprehensive and detailed assessment of the damage sustained by Polish companies following US suspension of MFN treatment was now being made. By way of example, he said that according to a preliminary survey of reports received from 12 Polish foreign trade organizations, the value of formally concluded contracts which had been partially or completely revoked following the announcement of the imposition of higher tariff rates in the United States was estimated -- for those firms only -- at approximately US\$10 million. When reports from other Polish exporters were in, the figure of direct damages would be considerably higher. Twenty-two Polish enterprises had reported that the total value of their contracts being negotiated at the time of the US action, and which subsequently had to be withdrawn from further negotiation, amounted to US\$55 million. A large share of these actual and potential loses was accounted for by a few companies, such as exporters of textiles, clothing, alcoholic beverages, metallurgical products, chemicals and handicrafts, which had a long history of trade

with the United States and which had invested considerable capital in their sales network. Virtually incalculable were the indirect costs of readjustment in Poland's geographical pattern of trade, and of the necessary adaptation in the technical specifications of goods, which quite often used to be custom-made to fit the particular requirements of Poland's clients in the United States.

He said that if a country was being forcibly pushed out of one of its major and longest established markets, this was bound to have adverse effects going far beyond the immediate impact of the measure itself. Given Poland's present payments position, which had been greatly exacerbated by well-known credit restrictions, the diminished possibility of exports to the United States adversely affected Poland's ability to finance necessary imports and to service its debt obligations. He recalled that at the Council meeting in January 1983, his delegation had asked the following question: how could the US action and other forms of economic harassment be reconciled with the requirement that Poland should increase its imports? So far, Poland had received no reply to this question.

He added that Poland was now gradually recovering from heavy political and economic shocks. A major place in this recovery effort had been assigned to presently ongoing economic reform, which emphasized the rôle of enterprises through a wide application of economic instruments of decentralized management. The foreign trade sector was one of the major areas where such instruments were being extensively introduced. External economic and trade restrictions, including US suspension of MFN treatment of Poland, were obviously detrimental to this process. This aspect, among others, had been highlighted in an official note from the Polish Government to the United States Government on 3 November 1983. In that note, the Polish Government had presented its views extensively. It had expressed its belief that the US Government would give due consideration to those views and would take proper steps, in conformity with international law and customs, to restore fully normal relations between both countries, including MFN treatment of Polish exports. In this matter, Poland was motivated not only by its own legitimate economic interests, but also by concern for the integrity of the GATT system, which was built on the cornerstone of the MFN rule. His delegation continued to be ready to participate in any constructive efforts aimed at solving this virtually unprecedented case.

Mr. MURPHY (United States) said that his delegation had taken note of the statement by the representative of Poland. This case was under continuing review in Washington. He said that the US position on this subject was accurately reflected under this point in the Council's report.

Point 22. Further opening of the Japanese market

Mr. BAJWA (Pakistan) welcomed the measures taken by Japan to open its market. Japan had certainly provided a lead worthy of being followed by other contracting parties, particularly by those with an important

position in international trade. However, developing countries would have to examine carefully the impact of such measures on their own exports. It would also be worthwhile for the major contracting parties to attempt even bolder and more wide-ranging measures to create an atmosphere of business confidence, for example by suspending or declaring a moratorium on anti-dumping and countervailing investigations or actions. Pakistan had recently, despite its serious balance-of-payments difficulties, liberalized imports of cotton yarn and fabrics. However, its exports of both these products had remained subject to quantitative restrictions and countervailing investigations. This could not but discourage further import liberalization by Pakistan and increase pressure from its domestic industry, which perhaps rightly asserted that a developing country could not indulge in the luxury of granting non-reciprocal trade concessions to developed countries.

Point 25. Training Activities

Mr. HAMZA (Egypt) expressed appreciation for GATT's training activities, which had proved valuable to his country. He reiterated the proposal made by his delegation as reflected under this point in the Council's report.

Mr. JAYASEKERA (Sri Lanka) expressed his delegation's appreciation for the GATT commercial policy courses and welcomed the increase in the number of participants in the courses from 20 to 24, though it wished the expansion could have been greater. It also welcomed the inclusion of a regular Spanish-speaking course, and the publication of a newsletter to maintain links with past trainees.

Mr. AHMAD (Bangladesh) expressed his delegation's appreciation for the commercial policy courses and for the technical assistance which the secretariat gave, particularly to the least developed countries; he requested that this assistance be continued on an increased scale.

Point 26. International Trade Centre

Mr. EWERLOF (Sweden, on behalf of the Nordic countries) said that the Nordic countries had noted with satisfaction that the GATT and UNCTAD had in 1983 recommended that the ITC be granted executing agency status with the UNDP. In order to enable the ITC to fulfil its important responsibilities in providing technical assistance to developing countries, appropriate funds should be made available. The session of the Joint Advisory Group of the ITC UNCTAD/GATT in early 1984 would seem to be the most appropriate occasion for making voluntary financial commitments. The Nordic countries would continue to provide substantive support to the ITC's activities and they appealed to other potential donor countries to increase their support.

Mr. HAMZA (Egypt) expressed his delegation's appreciation and support for the ITC's work and thanked the Nordic countries for their contribution.

Mr. BAJWA (Pakistan) expressed his delegation's appreciation for the statement made by the representative of Sweden and also for the fact that the Nordic countries were the major contributors of trust funds to the ITC. Pakistan continued to attach great importance to the ITC's work because it believed that by helping developing countries overcome their marketing problems this would contribute significantly to reducing tensions in GATT.

Mr. JAYASEKERA (Sri Lanka) said that his delegation supported the recommendation to grant the ITC executing agency status with the UNDP. Sri Lanka also supported the ITC's valuable work and considered that greater financial support should be given to the Centre. This was particularly important in the light of the resolution adopted at UNCTAD VI in 1983 to broaden the ITC's activities to encompass market research, development and promotion in the commodity field. The level of voluntary contributions to the ITC would need to be significantly increased, and pledges to this effect could be made at the forthcoming meeting of the Joint Advisory Group.

Mr. AHMAD (Bangladesh) expressed his delegation's appreciation and support for the ITC's work, particularly in promoting trade of the least developed countries. Bangladesh welcomed the recommendation to grant the ITC executing agency status with the UNDP.

Mr. SALIBA (Malta) expressed his delegation's appreciation and support for the ITC's activities and for the practical and efficient way in which it met requests for assistance.

Mr. DUNKEL (Director-General) recalled that GATT and UNCTAD were ready to recommend to the UNDP that it grant the ITC executing agency status, and the necessary steps to inform the UNDP of this wish had been taken. But there was an important further stage, and this would be the decision by the UNDP the matter.

Point 27 Administrative and financial questions

The CONTRACTING PARTIES adopted the report of the Committee on Budget, Finance and Administration (L/5564), including the recommendations contained therein and the Resolution on the expenditure of the CONTRACTING PARTIES in 1984 and the ways and means to meet that expenditure.

The CONTRACTING PARTIES then adopted the Council's report (L/5582) and took note of the statements.

2. Statement by the Director-General concerning the establishment of a Study Group

Mr. DUNKEL (Director-General) said that he had invited a group of seven distinguished people, with varied experience, to examine and advise on problems facing the international trading system. This initiative had been taken on his own responsibility.

¹ See also GATT/1349

He added that over the past year, both during and since the Ministerial session, he had had the opportunity to talk with Ministers and senior officials of a large number of contracting parties; they represented governments of countries at every level of development and of every kind of social system. He had found a remarkable similarity in their basic attitudes to the GATT and to its guiding principles. He was convinced that GATT's member governments still agreed on the basic need not only to keep world markets open, but also to resume the postwar process of trade liberalization; they also continued to give strong support to GATT as the fundamental contract governing their trade relations and the conduct of their trade policies.

However, the trading nations were now confronted by serious social, financial and economic problems. And in the face of these problems, many of the GATT member governments that he had consulted were finding it more and more difficult, in practice, to maintain both individually and collectively the policy orientation to which they continued in principle to subscribe. In view of these difficulties, it had seemed important to the secretariat to seek the advice of a group of people with relevant and varied experience who were all prominent and active in their particular fields, who had wide knowledge of the economic issues confronting governments, and who at the same time were not too closely bound up in the day-to-day conduct of trade policy.

He had invited the seven people concerned to meet over the coming year or so, in order to identify the fundamental causes of the problems afflicting the international trading system, and to consider how these could be overcome during the remainder of the 1980s. They would meet in complete independence. A small team from the secretariat would provide staff services, but the Group would set its own priorities, and would be free to seek advice and testimony from whatever sources it chose. He hoped that the Group's report would help governments to reconcile their short-term preoccupations in trade policy with their shared and continuing objective of preserving and developing a well-functioning international trading system.

The costs involved in the Group's work would be met from sources outside the regular GATT budget.

He expressed his gratitude to the following seven people who had agreed to join the Group:

- Senator Bill Bradley, Senator (Democrat) for New Jersey, United States;
- Mr. Pehr Gyllenhammar, Chairman and Chief Executive Officer of Volvo, Gothenburg, Sweden;
- Mr. Guy Ladreit de Lacharrière, Judge at the International Court of Justice, The Hague, and former high official in the Foreign Ministry of France;

- Mr. Fritz Leutwiler, current President of the Bank for International Settlements and Chairman of the Governing Board of the Swiss National Bank, Switzerland;
- Mr. Indraprasad G. Patel, Director of the Indian Institute of Management, Director-designate of the London School of Economics, and former Governor of the Reserve Bank of India;
- Professor Mario H. Simonsen, Director of the Postgraduate School of Economics of the Getulio Vargas Foundation and former Minister of Finance of Brazil;
- Mr. Sumitro Djojohadikusumo, Professor of Economics, University of Indonesia, and former Minister of Trade and Finance and Minister of Research of Indonesia.

The CHAIRMAN thanked the Director-General for his statement. He said that the CONTRACTING PARTIES had taken note of this information, and had particularly noted that the initiative was taken by the Director-General on his own responsibility and with a view to obtaining advice from this Group. He understood that the Group's report would be submitted to the Director-General.

The meeting adjourned at 1 p.m.