

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

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Surveillance Body

MEETING ON 21 JUNE 1988

Adoption of the Agenda

1. The Surveillance Body adopted the agenda proposed in the convening airgram GATT/AIR/2607.

List of notifications and communications on standstill and rollback

2. The Chairman drew attention to the list of notifications and communications on standstill and rollback in MTN.SB//W/3/Rev.1.

Item 2(A): Standstill

- (I) Examination of standstill notifications (MTN.SB/SN/- series) submitted in accordance with the agreed procedures (MTN.TNC/W/10)

3. The record of the Body's examination of notifications on standstill, drawn up in accordance with paragraph 3 of the agreed procedures, is annexed.

Item 2A(II): Consideration of statements by participants concerning other aspects of the standstill commitment

"Early warning"

4. The representative of the European Communities raised two matters under "early warning". The first concerned a bill accepted by the Californian Senate in the United States, regulating all public and private construction projects. The Community understood that the bill would probably be enacted; if so, the Community would consider it to contravene the General Agreement and would invoke Article XXIII procedures. The second matter concerned Australian measures in progress for tariff restructuring. Although Australia had made an offer to lower its tariffs, the Community was awaiting the final balance which would result from the restructuring and the lowering of the tariff, and hoped for results that would have positive rather than adverse effects for EEC exports to Australia.

5. The representative of Australia noted that his Government's decision, announced on 25 May 1988, to reduce assistance to Australian industries, including its decision to lower tariffs across the board, had been raised by his delegation at the special Council meeting on 15 June, and would be

formally notified. The measures did not constitute an offer; they would be implemented as they stood. Australia's objective in restructuring was to make an industry more internationally competitive. The accent was on reduction of assistance and greater competitiveness, rather than -- as discussion of certain measures at the present meeting indicated some countries were doing -- moving into areas where Australia was less competitive.

6. The representative of Canada said that his delegation had intended to express concern about EEC plans to change the basis for calculating its variable levy on buckwheat, millet and canary seed. However, Canada now understood that such a proposal had been dropped, and hoped that it would not be reintroduced.

7. The representative of the United States, referring to the so-called "Buy America" provisions which the European Community had raised at the Body's meeting in March, said that the US Administration was generally opposed to imposing such requirements on procurements involving the use of taxpayers' money. His authorities were especially concerned over attempts to undermine obligations undertaken by the United States when it had accepted the Agreement on Government Procurement. Nevertheless, it should be recognized that this Agreement represented only a small step forward in liberalizing international government procurement markets. The United States was not satisfied with the limited coverage and, at times, lax implementation of the Agreement's provisions. The Administration was doing as much as possible to defeat legislation that might affect US obligations under that Agreement. Nevertheless, the effectiveness of the Administration's arguments with industry and Congress was limited by the lack of effectiveness of the Agreement. The Administration would continue to combat protectionist "Buy America" proposals, but those countries most concerned with the impact of these Congressional moves should consider examining the source of Congressional concern rather than its legislative manifestations. An agreement in which one party contributed over three-quarters of the benefits shared by 20 countries could not be considered balanced and would inevitably encourage domestic criticism in the United States. As for US procurement legislation on contracts not covered by the Government Procurement code, the United States appreciated the concerns of other countries over legislation that could prohibit their suppliers from being awarded US public works contracts. At present, such contracts were not covered by the GATT nor by the Agreement on Government Procurement. Regarding the Mattingly Amendment to US Department of Defense Appropriations Legislation (MTN.SB/SN/1), the United States understood concerns over the effects of that Amendment on Department of Defense procurement. However, as his delegation had already noted, this amendment did not affect US obligations under the Agreement on Government Procurement or under the GATT.

Item (B): RollbackConsideration of statements concerning the rollback commitment, in the light of the agreed procedures (MTN.TNC/W/10)- Consultations

8. The Chairman noted that the latest state of play on rollback requests and offers was shown in MTN.SB/W/3/Rev.1. Three facts were clear from that list: first, that a limited number of participants had submitted requests; second, that although consultations had begun, or been scheduled, on most of the requests, in some cases delegations had not found it possible to start consultations within 30 days of the requests being circulated; and third, that no undertakings on rollback had been reported.

9. The representatives of Uruguay and the European Communities noted that their delegations had held a first round of consultations in early June concerning Uruguay's rollback request to the EEC. They said that the consultations had been useful and had clarified many of the matters at issue. A second round of consultations would be scheduled later.

10. The representative of Canada noted that his delegation had held useful consultations in early May with Brazil, Finland, Japan, Norway and Sweden, concerning Canada's rollback requests to those countries, and that the dialogue was continuing.

11. The representative of the United States said that his delegation had held a second round of consultations with Japan in late April, concerning the US rollback request to Japan. The consultations had been widely attended by other delegations and the United States considered that the process was now completed. His authorities were awaiting a response from Japan concerning its intentions on the US request.

- Follow-up to the EEC offer (RBC/19)

12. The representative of Japan recalled that at the meeting of the Surveillance Body on 8 March, his delegation had expressed serious concern over the rollback offer by the European Community (RBC/19) because the offer, if implemented, would create new discriminatory quantitative restrictions against some contracting parties including Japan. Japan's careful examination of the offer had confirmed its belief that the proposal by the Community did not deserve to be called an offer since it would create new discriminatory measures that would violate Articles I, XI and XIII of the General Agreement. Furthermore, according to Japan's calculation, the number of items subject to discriminatory quantitative restrictions maintained by EEC member States against Japan would increase from 131 at present to 134 on CCCN four-digit basis. Japan understood that rollback of measures should be implemented on an m.f.n. basis. If any element of discrimination were to be allowed in the rollback exercise, the GATT would

end up in an accumulation of many discriminatory measures by contracting parties against each other. This had been far from the intention of the Ministers when they had agreed on the rollback commitment at Punta del Este. The Community had said that it did not intend to create new discriminatory measures. How then should one interpret the expression "except for East European Countries and Japan" in the Community's offer? Since the Community had asserted that the aim of its rollback offer was not to create discrimination, Japan strongly requested it to bring its offer into conformity with the GATT and with the Punta del Este Declaration by eliminating any discriminatory elements. At the same time, his delegation requested the Community to eliminate immediately the present discriminatory quantitative restrictions maintained by EEC member States against his country. Japan attached great importance to the rollback commitment which should be implemented autonomously on an equitable basis among participants concerned. It was important also that overall progress in the Uruguay Round be made before the December 1988 meeting at Ministerial level. Notwithstanding Japan's difficult domestic situation, his authorities were now making their utmost efforts with respect to possible rollback. Although Japan was not yet in a position to make any concrete offer, his Government was doing its best with a view to making a concrete offer on rollback by the time of the Ministerial meeting. Japan hoped that other participants would also make utmost efforts to do the same.

13. The representative of Hong Kong said his delegation welcomed the EEC offer in that it was an autonomous gesture rather than a reaction to a request. It was encouraging that a major participant should take the lead in this way and Hong Kong hoped others would be prompted to come forward similarly with meaningful offers, thereby giving some real impetus to the commitment on rollback. In this respect, Hong Kong welcomed Japan's statement that it hoped to come forward with an offer before the Ministerial meeting. His delegation was disappointed that the content of the EEC offer was of marginal trade interest to Hong Kong. The number of items on offer was small compared to the number of national quantitative restrictions in the EEC's list of such restrictions. However, his delegation was pleased that the EEC had made clear that its offer was an initial step. Hong Kong noted that the offer included some 67 items which did not appear in the EEC's latest list of products subject to national quantitative restrictions published in the Commission's Notice 87/C 37/01. His delegation would therefore like to know what types of restrictive measures were intended for elimination. Hong Kong was concerned about the non-m.f.n. aspect of the offer, which went against the fundamental principle of the General Agreement. This raised the question whether the conversion of global quotas into discriminatory quotas was really trade liberalization as envisaged by the Ministerial Declaration. His delegation was most concerned that the half-way point in the Uruguay Round had nearly been reached and not a single rollback undertaking had emerged. Unless participants demonstrated that the commitment was honoured in principle and in practice, and that it was indeed being progressively implemented, the commitment would ring increasingly hollow. To ensure progress therefore, a collective stock-taking of the

consultations on rollback was important; the TNC meeting at Ministerial level in December would provide an obvious opportunity. Brazil had proposed in MTN.SB/W/5 that the Surveillance Body undertake to review progress between 15 October and the end of November, a suggestion which Hong Kong supported.

14. The representative of Hungary said that the intention of the Community's conditional offer on rollback could be judged only by its content. Hungary much regretted that the offer would result in the emergence of new GATT-inconsistent, discriminatory measures vis-à-vis certain countries, including his own. According to the offer, certain member States of the Community would introduce new discrimination or would increase the level of existing discrimination: by the Federal Republic of Germany, the level of discrimination was proposed to be increased at one position; by Spain, in all the 8 items covered by the proposal, new discrimination would prevail; by France, new discrimination would be introduced at one position while in 8 other items the level of discrimination would be increased; by Greece, new discrimination would appear in 8 positions; by Portugal, new discrimination in two items might be the result of the so-called liberalization. If one took into account all the items covered by the Community's offer, there were Hungarian exports at only 9 positions in 1986, with a total value of less than one million ECU. Out of this, still on the basis of 1986 data, the discrimination applied against products from Hungary would be eliminated for an export value of 11,000 ECU, while new discrimination or an increased level of discrimination would be introduced for a value of 76,000 ECU. It should be recognized that in certain items possibilities for access to the EEC member States concerned were already heavily restricted. Hungary had made clear at the March meeting of the Surveillance Body that it regarded this proposal as being inconsistent with the provisions of the General Agreement, in particular Articles I, XI and XIII, as well as with the letter and spirit of the Punta del Este Declaration, with its objectives and with the standstill and rollback commitments. The Ministerial Declaration had stated the necessity of preserving basic GATT principles, of which non-discrimination was among the most important. The EEC's offer had been made almost in parallel with the officially-stated intention of the Community and its member States to strengthen and further develop trade and economic cooperation with Hungary. While once again requesting the Community and the member States concerned to rectify their offer and bring it into full conformity with the General Agreement, Hungary reserved its rights under the GATT with respect to the measures in the EEC offer. Hungary furthermore expected the Surveillance Body to examine any offer made in the context of the rollback exercise in the light of its conformity with the Punta del Este Declaration, and especially with the rollback commitment. Rollback could mean nothing else than the elimination of trade measures and practices which did not conform with the GATT.

15. The representative of Poland said his delegation recognized that the EEC offer on rollback was the first to have been made. Poland appreciated that the Community was ready to eliminate some quantitative restrictions and wanted to view the offer in a positive way. However, his country maintained its reservations concerning the list of rollback measures in the EEC offer, since the exclusion of Poland from part of the offer by certain EEC member States would introduce discrimination towards imports of the Polish products concerned. His delegation could not accept that liberalizing measures were proposed to be implemented in contradiction with the basic principles of the General Agreement and of the Punta del Este Declaration. The exclusion of Poland from the offer in the case of 26 quantitative restrictions, that were at present applied against imports from all third countries, contravened the m.f.n. principle in Article I and the principle of non-discriminatory application of quantitative restrictions in Article XIII. Implementation of the EEC offer would therefore contradict the standstill commitment. The process of elimination of trade measures under the rollback commitment could not be accompanied by introducing new discrimination inconsistent with GATT provisions. Poland attached great importance to the basic GATT principle of non-discrimination and hoped that this rule would be observed by all participants in the Uruguay Round, including in the rollback process. His country requested the Community to modify its offer and bring it into line with the principle of non-discrimination.

16. A number of delegations welcomed the fact that the EEC had made an offer, but expressed reservations concerning its discriminatory elements and limited coverage. They welcomed Japan's statement that it would do its best to make an offer on rollback by the time of the December 1988 Ministerial meeting, and looked forward to hearing details of the actual offer.

17. The representative of the European Communities said his delegation was disappointed at the reactions to the Community's offer expressed at the present meeting and at the Body's previous meeting in March. It was easy to attack particular elements of an offer made by one participant, but the Community would have liked delegations which had criticisms to have been able to say that they had made offers themselves. For this reason, the Community welcomed Japan's statement that it would do its best to make a concrete offer on rollback by the time of the Ministerial meeting. It was not so much the discriminatory element, or the coverage, or the value of its own offer that the EEC contested; his delegation wanted to emphasize the importance of the political gesture that the Community was making by putting forward its offer. The fact remained that this was still the only offer to have been made. If there was to be any success in this area by the time of the Ministerial meeting, it was indispensable that other participants should make offers too.

18. The representative of the United States said his delegation welcomed autonomous offers such as that made by the Community, but regretted that the US could not view the EEC offer entirely positively because of its lack of comprehensiveness. The United States also understood the views of those participants which were discriminated against in the offer.

19. The Chairman expressed the hope that all participants would reflect carefully on the concerns and views expressed. He believed that all participants wanted to carry out the rollback exercise with the objective of securing progressive and balanced implementation of this political commitment. Furthermore, he was sure that all participants bore in mind the understanding by the Chairman of the TNC that some rollback undertakings should already have been notified to the Surveillance Body by the end of 1987. It was clear that a very large number of participants attached great importance to the necessity of taking some concrete action on rollback before the Ministerial meeting in December 1988.

- Proposal by Brazil (MTN.SB/W/5)

20. The representative of Brazil, introducing his delegation's proposal in MTN.SB/W/5, recalled that at the meeting of the Surveillance Body in March, Brazil had proposed that a practical solution be found to secure implementation of the Ministerial commitment to rollback measures inconsistent with the General Agreement. The proposal in MTN.SB/W/5 suggested target dates, rather than deadlines, for: (i) the submission of rollback requests; (ii) consultations on these requests; (iii) notifications of rollback undertakings resulting from these consultations; and (iv) offers on rollback. The proposal sought to achieve the agreed goal of progressive implementation of the Ministerial commitment, bearing in mind that this commitment must be implemented not later than by the date of the formal completion of the negotiations. Brazil considered that there was a close relationship between progress in the negotiations on non-tariff measures and the effort that had to be made to make a convincing start on rollback before the Ministerial meeting in December 1988. It was important that both processes move in parallel, so that work in the Negotiating Group on Non-Tariff Measures did not get stuck on account of difficulties over defining which measures were and were not consistent with the General Agreement. In addition, the type of studies necessary for the submission of lists to the Negotiating Group was the same that had to be undertaken to identify measures deemed to be subject to rollback, which was why the timetable proposed in MTN.SB/W/5 followed more or less the one agreed upon within the Negotiating Group. The proposal was in line with the agreed procedures on rollback. Brazil was convinced that progress in making undertakings on rollback before the Ministerial meeting in December would constitute an important confidence-building step for the Uruguay Round as a whole and would demonstrate to public opinion in the different countries that their governments were earnest about their objectives in the negotiations.

21. The representative of Uruguay supported Brazil's proposal and urged the Surveillance Body to adopt it at the present meeting. He noted that the rollback process had begun on 20 September 1986 and that the Ministers had agreed that it should be applied progressively so that all GATT-inconsistent measures should be eliminated by the close of the Uruguay Round. However, 21 months after the commitment had taken effect, no undertakings on rollback

had been made. If participants continued in this state of stagnation, the multilateral trade negotiations would not conclude successfully, and if there were no concrete, valid results on rollback before the Ministerial meeting in December 1988, that meeting could not be successful either. The reason for this was clear: for many countries, including Uruguay, their capacity and their readiness to offer concessions in other areas of the negotiations depended directly on receiving satisfaction on rollback. The Ministers had agreed to the rollback commitment so as to rectify nonfulfilment of relevant provisions of the General Agreement by some contracting parties, given that there were disadvantages for those countries which had fulfilled their obligations, and advantages for those which had not. Since there had been no action on rollback so far, contracting parties had recently made increasing recourse to Article XXIII:2 procedures which had led to a proliferation of panels, as that route seemed to be the only means of securing results. He also noted that although neither the Ministerial Declaration nor the agreed procedures provided for conditional offers on rollback, the fact remained that the European Community's offer was the only one made so far. Uruguay welcomed Japan's statement that it was actively considering what offer to make, and looked forward to hearing concrete steps announced in the near future.

22. A number of delegations supported Brazil's proposal as well as the views expressed in its favour by the representatives of Brazil and Uruguay. They recognised that the Ministerial Declaration provided for rollback undertakings to be notified by the close of the Uruguay Round, but emphasized that the Ministers had also agreed that there should be "progressive implementation" on an equitable basis. They said that Brazil's proposal was modest and flexible, and could be a useful catalyst in helping to move the rollback process forward by suggesting indicative target dates to be followed where possible, rather than rigid deadlines. They saw the proposal as being in line with the Ministerial Declaration and with the agreed procedures. These delegations underlined the importance they attached to the rollback commitment being implemented, as well as the need for some initial concrete results to be secured by the December Ministerial meeting, if that meeting was to have a chance of succeeding. They supported the suggestion, in paragraph (iii) of the proposal, that the Surveillance Body review the situation before the Ministerial meeting, while recognising that it was for the TNC to evaluate the implementation of standstill and rollback commitments on the basis of such a review.

23. A number of other delegations, while recognising the need for progressive implementation of rollback on an equitable basis, could not agree to adopt Brazil's proposal. They expressed reservations on two basic points: first, they considered that the suggested target dates were unrealistically impractical; and second, they considered -- referring to paragraph (iii) of the proposal -- that both the Ministerial Declaration and the agreed procedures made clear it was for the TNC, rather than the Surveillance Body, to evaluate implementation of the standstill and rollback commitments. The Surveillance Body had no mandate "to take any action



necessary" as suggested by Brazil. Although noting that the only agreed deadline for implementation of the rollback remained the date of the formal completion of the Uruguay Round, they agreed that it would be highly desirable for some concrete results on rollback to be notified before the Ministerial meeting in December 1988. This would have to be done on an equitable basis as agreed by the Ministers, and fixing dates would not necessarily help move forward a process that was inevitably time-consuming and that depended essentially on the right coordination of collective political actions.

24. The Chairman noted that the discussion had indicated a broad understanding for the spirit underlying Brazil's proposal, which had received support from a number of delegations. At the same time, doubt had been expressed by a number of delegations about the feasibility of establishing the kind of specific time-frame put forward in the proposal, and about the way in which some parts of the proposal related to the surveillance mechanism provided for in the Punta del Este Declaration and established by the TNC. What had stood out from the discussion was a general recognition of the need to achieve convincing progress on rollback prior to the Ministerial meeting in December 1988. Suggestions had been made that participants should see what could be done to accelerate the submission of requests and the process of consultations, and that the Surveillance Body should continue to keep the process under review and revert to this matter at its next meeting. The point had been made that rollback action need not necessarily be limited to responses to requests, and that it should be possible for delegations to take action on an autonomous basis. Brazil's proposal had, at the least, served a very useful purpose in bringing out these points. It would be open to the TNC to consider the proposal.

25. The representative of Brazil expressed appreciation to those participants which had supported his delegation's proposal and which had shown a genuine desire to advance the rollback process. However, his delegation was disappointed and frustrated that some participants seemed to have disregarded the Ministerial agreement that there should be progressive implementation of the rollback commitment. Neither did Brazil understand the practical problems which some participants had seen in what his delegation, and those which had supported it, considered to be flexible and feasible target dates providing the political will existed. His delegation had made clear that it did not expect the rollback process to be completed by the time of the December 1988 Ministerial meeting; it was aiming simply to provide a time-frame that would help produce some initial concrete results; Brazil recognized that some of those undertakings might be implemented after the Ministerial meeting. While paragraph (iv) of his delegation's proposal recognized that offers on rollback could be accepted, Brazil did not accept the view that rollback was necessarily autonomous; the basis of the Ministerial commitment, and of the agreed procedures, was for undertakings to be made in response to requests. Although a number of participants had professed their desire to fulfil their commitments, Brazil

had not been convinced by the reasons they had given for not agreeing to its proposal. Such an attitude would have a negative impact on his delegation and, he believed, on other delegations, regarding their participation in the multilateral trade negotiations.

26. The representative of Uruguay supported the views just expressed by Brazil and pointed to the dangers, for the GATT system and for the multilateral trade negotiations, if some substantial action on rollback was not taken by the time of the Ministerial meeting. He said that participants in the Uruguay Round would undoubtedly want to evaluate, from the point of view of their participation in the negotiations, the failure of the Surveillance Body to adopt Brazil's proposal.

27. The representative of Australia said that the rollback process clearly involved difficult decisions by governments which might well take some time to be reached. In his view, implementation would probably be the easier part of the process. Consequently, his delegation considered that there was no need at this stage for pessimism or implied threats. Australia encouraged optimism if progress was to be made.

Item C: Other Business

Chairman's Summary of the Current Situation on Implementation of the Standstill and Rollback Commitments

28. The Chairman made the following summary, on his own responsibility, of the current situation on implementation of the standstill and rollback commitments.

- Evaluation by the Trade Negotiations Committee

29. The aim of the summary was to assist the Trade Negotiations Committee (TNC) in its responsibility for evaluating the implementation of the standstill and rollback commitments, and for evaluating the impact on the process of the multilateral trade negotiations and in relation to the interests of individual participants (MTN.TNC/W/10, page 8, paragraph 8). Under the agreed procedures, the TNC would be carrying out such an evaluation both at its July meeting and at its meeting at Ministerial level in December.

30. The Chairman noted that the basic material for the TNC's stock-taking and evaluation would be contained in the detailed reports (MTN.SB/1-6) on the Surveillance Body's six meetings held so far. However, he considered it would be useful for the TNC to have a reasonably succinct presentation of the basic facts, in this summary, so that it could have a synoptic picture of what had, and had not, been achieved so far. He emphasized that the summary would not take the place of any appreciation that participants in the TNC might want to make individually, nor of course would it substitute for the evaluation which the TNC itself was required to make.

31. A consolidated text of the Ministerial commitments on standstill and rollback, and of the procedures agreed by the TNC and by the Surveillance Body, was contained in document MTN.TNC/W/10. This document showed that where practical problems had arisen with the agreed procedures during the first 18 months of the Surveillance Body's work, the Body had reached agreements designed to deal with those problems.

32. The secretariat had drawn up and regularly updated the list of notifications and communications on standstill and rollback. The most recent revision, contained in document MTN.SB/W/3/Rev.1<sup>1</sup>, provided a clear picture of what had been notified under the standstill commitment. A second section showed what rollback communications had been received so far and the dates of consultations on these. It also showed that no rollback undertakings had been notified so far.

- Standstill

33. The list in MTN.SB/W/3/Rev.1 showed that since the standstill commitment took effect on 20 September 1986, a total of 21 notifications had been made as of 21 June 1988: 17 by developed countries, and four by developing countries. Most of the notifications related to measures taken by developed countries but in three cases they related to measures taken by developing countries. The notifications covered quantitative restrictions, tariffs, import controls and prohibitions, internal taxes, production and export subsidies, and government procurement.

34. It could be seen from the list that, out of the 21 notifications, more than two-thirds cited violation of paragraph (i) of the standstill commitment under which participants agreed "not to take any trade restrictive or distorting measure inconsistent with the provisions of the General Agreement or the Instruments negotiated within the framework of GATT or under its auspices". The other notifications mostly referred to paragraph (iii) of the standstill commitment, under which participants agreed not to take any trade measures in such a manner as to improve their negotiating positions. Governments making the notifications had requested that the measures to which they referred be withdrawn.

35. In one case, concerning Greece's ban on imports of almonds, the notifying participant, the United States, had told the Surveillance Body that since Greece had lifted the ban, the notification was now withdrawn (see Annex, paragraphs 10-11).

36. Article XXIII:2 panels had found that two of the notified measures (the US tax on imported petroleum and the US customs user fee) contravened the General Agreement, and the Council had adopted the panel reports. In three

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<sup>1</sup>To be updated with a further revision before the TNC meeting in July.

other cases (US increase in customs duties on imports of certain Japanese consumer electronic goods; Greece's ban on imports of almonds; and EEC's suspension of licences for imports of apples from Chile) the complainants had invoked Article XXIII procedures. In cases on which the CONTRACTING PARTIES had not found the measures to be inconsistent with the GATT, the Surveillance Body had noted that a difference of opinion existed between the notifying participant and the participant notified against as to whether or not the standstill commitment had been breached.

37. The Surveillance Body had confined itself to its mandate of examining the relationship between the measures notified and the standstill commitment and had not attempted to reach conclusions as to whether the measures notified had breached that commitment.

38. Most participants considered that the Body's "early warning" discussions, on proposed measures, had been useful.

- Rollback

39. As of 21 June 1988, 18 requests had been made for measures to be rolled back or brought into conformity with the GATT (see MTN.SB/W/3/Rev.1). Eight of the requests had come from developing countries and the other ten from developed countries. With one exception, all the requests had been addressed to developed countries. Most of the requests concerned quantitative restrictions considered by the requesting country to be inconsistent with Articles XI and XIII.

40. Consultations had been held, or scheduled, on most of the requests. In several cases, the consultations had been held several months after the requests being circulated. In some cases, formal consultations had not begun even though the requests had been circulated eight months previously. It had been stated that the delegations involved had needed time to clarify certain requests, including their relevance to the rollback commitment. The Body had agreed on a target of 30 days for beginning the process of consultations following receipt of requests.

41. There had been no undertakings on rollback, despite the understanding by the Chairman of the TNC that some would be made by the end of 1987 (MTN.TNC/W/10, page 6).

42. The European Community had put forward an offer on rollback (RBC/19) and had sought appropriate contributions by other participants as a condition for implementing that offer. Participants had recognized that this was the first offer to have been put forward. However, a broad degree of concern had been expressed in the Surveillance Body that the offer maintained or created discrimination against the trade of some participants which would be contrary to the GATT and the standstill and rollback commitments. The Body had noted that it remained open to delegations to consult informally on the follow-up to the EEC's offer. The importance of

promoting possibilities for implementing some rollback undertakings before the Ministerial meeting in December had been stressed in this connection.

43. A proposal by Brazil (MTN.SB/W/5) that the Surveillance Body agree on target dates for requests, offers and undertakings on rollback had been considered by the Body at its meeting on 21 June. The Surveillance Body did not adopt the proposal, although it was supported by a number of delegations and there had been widespread expression of support for the spirit underlying it. Doubts had been expressed about the feasibility of establishing the kind of specific time-frame put forward in the proposal, and about the way in which some parts of the proposal related to the surveillance mechanism provided for in the Punta del Este Declaration and established by the TNC. It would be open to the TNC to consider the proposal. All participants wanted to carry out the rollback exercise with the objective of securing progressive and balanced implementation of this political commitment. A large number of delegations attached great importance to the need for achieving convincing progress on rollback before the meeting of the TNC at Ministerial level in December.

Date of next meeting

44. The Surveillance Body agreed to hold its next meeting on Thursday, 27 October. This date could be changed if circumstances so required.

ANNEX

RECORD OF EXAMINATION ON 21 JUNE 1988  
OF NOTIFICATIONS ON STANDSTILL

Item 2(A): Standstill

- (I) Examination of standstill notifications (MTN.SB/SN/- series)  
submitted in accordance with the agreed procedures (MTN.TNC/W/10)

New notifications on standstill

EEC - Refunds for exports of boned beef to Venezuela (MTN.SB/SN/8 and Add.1)

1. The representative of Argentina, drawing attention to his country's notification (MTN.SB/SN/8), considered that the Community's refunds for exports of boned beef to Venezuela violated paragraph (iii) of the standstill commitment, since the measure improved the Community's negotiating position through the granting of export subsidies. Argentina believed that the measure confirmed the EEC's policy of exporting to Latin America by the use of export subsidies. Such a policy and such measures directly contravened the Ministerial commitments to standstill and rollback which were intended to promote the basic objectives of the Uruguay Round, i.e. the liberalization of world trade and the reform of GATT rules.
2. The representative of the European Communities noted the comments made by his delegation in section 7 of MTN.SB/SN/8, which stated that the EEC was regularly selling beef from intervention stocks for export. During the first half of 1987, around 6,000 tons of such beef had been sold by private exporters to importers in Venezuela. For sanitary reasons, the beef had, however, not been released for consumption by the authorities in Venezuela. In order to replace the quantity of beef which could not be imported, the Community had exceptionally decided to sell another 6,000 tons under Regulation (EEC) No. 481/88. The sale under that Regulation had therefore in no way been carried out with a view to improving the EEC's negotiating position. Furthermore, subsidies for the sale of primary products were authorized under Article XVI of the General Agreement.
3. The representative of Argentina noted that the measure in question had been taken after the standstill commitment entered into force.
4. The representative of Uruguay supported Argentina's views and considered that the Community's reply was unsatisfactory.

Canada - Import controls on dairy products (MTN.SB/SN/9 and Add.1)

5. The representative of the United States drew attention to his country's notification in MTN.SB/SN/9, noting that Canada had recently added several dairy items to its list of goods subject to import control. The United States understood that the new dairy quota allocations would be based on trade from 1984 to 1987, and was concerned that this time period was not

representative of historical trade between the two countries in these products. The United States was also concerned about Canada's plans for implementation of the measure, e.g. provision for growth and new entrants. Canada's action has been taken under laws that preexisted the Punta del Este Declaration. However, the United States considered that the measure violated the standstill undertaking, as it was operated in a GATT-inconsistent way. While Canada's Agricultural Stabilization Act and Dairy Commission Act might be GATT-consistent under Article XI, these new additions to the import control list could not be so justified as they were not designed to protect like products. Canada had taken steps to introduce new trade distortive and GATT-inconsistent measures and thus had violated the standstill commitment.

6. The representative of Canada drew attention to his delegation's response to the US notification in section 7 of MTN.SB/SN/9. Canada's addition of a number of dairy products to the Import Control List had been necessary to enforce the national supply management program for manufacturing milk. The action had been taken consistent with GATT and not to improve Canada's negotiating position in the Uruguay Round. Canada would consult with affected suppliers on the administration and level of the import quotas.

7. The representative of New Zealand said his delegation supported the US conclusion that Canada's measure violated the standstill commitment, and had stated this view to the Canadian authorities in bilateral consultations. Whether the measure was GATT-consistent or -inconsistent was an interesting question, but the real issue was whether the measure went beyond what was necessary to remedy a specific situation, in terms of paragraph (ii) of the standstill commitment. This most recent tightening of Canada's dairy import quotas, covering total imports of less than C\$1 million, was hard to square with the concept of what was necessary to remedy a specific situation. It was easier to conclude that this was another example of the Canadian dairy industry demanding protection and, for political reasons, getting it. It was interesting that the United States was the complainant in this matter, given that it had concluded negotiations for a Free Trade Area (FTA) with Canada; although agriculture was technically included in that FTA, New Zealand had judged that the US and Canadian negotiators had decided basically to deal with agriculture in the multilateral arena. It was also ironical that the United States was the complainant given that the United States was one of the world's most protectionist countries on dairy products. New Zealand noted that both the United States and Canada had submitted proposals to liberalize trade in agriculture, which would entail liberalization of their dairy sectors. New Zealand commended both the United States and Canada for showing this readiness.

Greece - Ban on imports of almonds (MTN.SB/SN/10 and Add.1)

8. The representative of the United States, referring to his country's notification in MTN.SB/SN/10, welcomed the news, as reflected in the copy of letters from the Greek authorities to the European Communities, informing the Community that as of 29 April 1988, imports of almonds were not subject to quantitative restrictions. The United States noted that several

shipments of US almonds had recently entered Greece without problem. His delegation was glad that the Greek authorities had resolved this situation, and would expect written confirmation of this fact. The United States also hoped that Greece would continue to maintain access to its market for third countries in accordance with its GATT obligations.

9. The representative of the European Communities said his delegation welcomed the fact that a solution had been found so quickly to this problem. The Community noted this evidence that surveillance of the standstill commitment had, in this case, led to a positive outcome.

10. The Chairman said he assumed that the Surveillance Body could now consider, in the light of this development, that the US notification was no longer on the table.

11. The representative of the United States confirmed that this assumption was correct.

Canada - Fixed quota restrictions on imports of worsted wool fabric and clothing originating in South Africa (MTN.SB/SN/11)

12. The representative of South Africa, referring to his country's notification in MTN.SB/SN/11, said his authorities considered that Canada's measure was inconsistent with its obligations under, at the least, Articles I and XI of the General Agreement. Furthermore, the restrictions had been imposed with only seven working days notice, without prior consultations and without Canada providing any supporting information on quantities and prices to justify the action. The matter had been pursued in bilateral consultations under Article XXII:1 and his authorities were still considering their outcome. It seemed clear that the information obtained confirmed South Africa's contention that, having regard to the relatively small quantities imported from South Africa and, furthermore, the declining trend during the past two and a half years of such imports, they could not possibly pose a threat of market disruption or interfere with the steady flow of imports from MFA signatories, as had been claimed by Canada. Canada's continued refusal to bring the measure into conformity with its GATT obligations raised the question of whether Canada, which was alert whenever its rights under the Punta del Este commitments were affected, treated its own obligations as seriously. In these circumstances, there seemed to be no alternative to the permanent mechanisms of the GATT in order to seek the removal of a restrictive measure which was inconsistent with the provisions of the General Agreement.

EEC - Apple import quota system (MTN.SB/SN/12 and Add.1, and MTN.SB/SN/15)

13. The Chairman drew attention to two notifications concerning the European Community's quota system for apple imports: by Chile (MTN.SB/SN/12 and Add.1) and by the United States (MTN.SB/SN/15). He noted that in May 1988 the Council had established an Article XXIII:2 panel to examine Chile's complaint (C/M/220, Item 4), and that this matter had previously



been discussed under "early warning" at the meeting of the Surveillance Body in March 1988 (MTN.SB/5, paragraphs 5-12).

14. The representative of Chile said her delegation maintained its arguments which had been expressed at the Body's meeting on 8 March concerning the EEC measure. She noted that in the period since that meeting, the Community had adopted a quota system for all Southern hemisphere suppliers of apples during the period from 15 February to 31 August 1988, while maintaining the prohibition on the issue of licences for apples from Chile, as described in Chile's notification (MTN.SB/SN/12). These restrictive and discriminatory measures seriously affected the interests of Chile's producers and exporters of apples, which depended for their growth on stable conditions of access and transparency in international markets. She noted that apple production and exports constituted a particularly important sector of Chile's economy, which was beset by a heavy foreign debt burden. It seemed illogical that one of the world's main economic groups should adopt measures which contravened the objectives and principles of GATT, as well as paragraph (i) of the standstill commitment, at a time when Uruguay Round participants were negotiating to promote more effective and competitive agricultural trade. Furthermore, Chile supported the standstill notification made by the United States (MTN.SB/SN/15) on the same matter.

15. The representative of the United States said his delegation supported Chile's views on this matter and had reserved its right to make a submission to the Article XXIII:2 panel established by the Council. The United States had consulted with the Community on this same subject under Article XXIII:1 and was reviewing the information received during those consultations. Referring to his country's notification in MTN.SB/SN/15, he said that the United States considered the Community's import quota system on apples to be a GATT-illegal barrier to trade and therefore inconsistent with the Community's standstill undertaking. The action was inconsistent with Article XI, which permitted quantitative restrictions only if they were necessary to enforce governmental measures to restrict the quantities being marketed of like domestic products, or to remove a temporary surplus of the like domestic product. Neither of these conditions had been met in this case; there were no quantitative restrictions on production of EEC apples, and there was no surplus of apples in the Community. The United States objected to this action because it would result in the diversion to the US market of apples originally intended for sale in the Community. Such diversion could have serious consequences for the US apple market which was attempting to absorb a record crop. Prices were already depressed. The United States believed that destination of trade should be determined by prices and other economic factors, not by quotas.

16. The representative of the European Communities noted that his delegation had already expressed its position on this matter at length during the Body's meeting on 8 March and also in the Council. As stated in section 7 of MTN.SB/SN/12 and MTN.SB/SN/15, the Community considered that

its measure did not breach paragraph (i) of the standstill commitment. The measure was temporary, would apply erga omnes and was justified under Article XI:2. He said that the risk of diversion of exports was almost non-existent, since the Community had respected traditional trade flows in setting the quotas. The Community hoped for a satisfactory settlement of the dispute under the Article XXIII dispute settlement proceedings and considered that it was no longer for the Surveillance Body to deal with this problem pending the results of those proceedings.

17. The representatives of Argentina, New Zealand, Uruguay, Australia, Hungary, Poland and Canada shared the concerns expressed by Chile and the United States about the nature of the Community's measure and about the uncertainty and negative effects which it was creating for their exporters of apples during the relevant seasonal period. Delegations noted that they had already expressed their views on this matter in detail in the Council and in previous meetings of the Surveillance Body. Concern was expressed not only over the restrictive and discriminatory features of the Community's measure but also over the fact that such action might come to be accepted as a precedent for future restrictions. It was important for this reason that the Article XXIII:2 panel reach conclusions which would discourage future restrictions, given that the panel's conclusions on Chile's complaint would likely be reached only after the current measure expired in August 1988. The Community's justifications for taking the measure, which was seen as violating the standstill commitment, were not accepted.

18. The Chairman noted that even though this measure was being dealt with under Article XXIII:2 procedures, it could still be discussed in the Surveillance Body in terms of the standstill commitment if participants considered it useful to do so. There were some aspects of that commitment which were not necessarily covered by the terms of reference of Article XXIII:2 panels.

Canada - New production subsidy program for white pea beans (MTN.SB/SN/13 and Add.1)

19. The representative of the United States, referring to his country's notification in MTN.SB/SN/13, said the United States believed that Canada's tripartite stabilization program for dry beans would artificially stimulate Canadian production and exports, thereby depressing world and US prices for this product. The United States considered that this program provided new price incentives that would artificially maintain a high level of production during periods of domestic market price declines and would artificially stimulate entry into this sector. The formulation of the support price used a 7-year average that included unusually high prices from anomalous years. Based on current year estimates, the program payments would go far beyond appropriate levels for bona fide income stabilization and, instead, would stimulate production at levels unjustified by current market conditions. The program artificially supported the expansion of the Canadian white pea bean industry and the United States was concerned that it would be a

non-market stimulus for further growth in Canada's white and coloured bean production. The United States was concerned that at a time when the major trading nations were negotiating a reduction in such measures, new ones continued to be introduced. His delegation hoped that at the very least Canada would reconsider its method of calculating support levels and stabilization payments, so as to develop a system which would not artificially increase production and distort trade at unreasonable levels.

20. The representative of Canada said that his country's dry bean stabilization program could not in any way be identified as a change in policy which would influence Canada's negotiating position. The program did not contravene paragraph (iii) of the standstill commitment and did not introduce any barrier to entry of beans into Canada, nor did it have the production incentives attributed to it in the US notification. Tripartite stabilization was a market risk-sharing program with premiums shared by Canada's federal and provincial governments and by the producers themselves. The aim of the program was to limit losses without stimulating production. The program provided some income support in a way which was market neutral. The Tripartite Stabilization Act predated September 1986 and thus was not covered by the standstill commitment. The Act was a revision of the Agriculture Stabilization Act of 1958 which provided similar loss-limit protection to white pea growers. In the case of dry beans, a stabilization plan had been implemented for the 1987 crop year in the provinces of Alberta and Ontario. In this new program, costs were shared between the federal government, the provinces and the producers. A 7-year historical average of prices had been chosen because bean prices tended to fluctuate significantly. Under the former program, deficiency payments had been made if the price fell below 90 per cent of the previous 5-year average. By increasing the averaging period, the influence of price extremes both high and low was reduced. If producers wanted to join the program, which was voluntary, they were required to sign up for a 3-year period and if they resigned were required to wait for an additional three years before they could re-enter. Any deficiency payment which might become payable was only known after the marketing season; thus the program could not influence planting decisions. Also, because the payments were based on the 7-year average, there was no incentive to try to sell at low prices because this would only reduce the basis level for future stabilization payments. More than 90 per cent of Canadian white bean production was in the province of Ontario and was marketed by a commercial agency, the Ontario White Bean Producers Marketing Board, established in 1967. In its marketing of the product, the Board acted in the same way as any private trader would do. The initial payments it made to producers were advances against its estimated final market return which were shared among all producers equally. These payments were not related to the tripartite income stabilization scheme.

EEC - Prohibition of the non-therapeutic use of substances having a hormonal action on farm animals (MTN.SB/SN/14)

21. The Chairman drew attention to Canada's standstill notification in MTN.SB/SN/14 and noted that Canada had requested the EEC to withdraw the same measure in a rollback communication (RBC/10/Rev.1).

22. The representative of Canada said his Government considered that the unilateral introduction of a prohibition of the non-therapeutic use of substances having a hormonal action on farm animals was inconsistent with GATT provisions and with the Agreement on Technical Barriers to Trade. Canada further considered that, regardless of the consistency or otherwise of this measure with GATT provisions and with the Agreement on Technical Barriers to Trade, this prohibition went beyond that which was necessary to address a specific situation, viz. the reported desire of EEC consumers for meat free of hormonal residues. In implementing the prohibition, the Community was ignoring scientific evidence to the effect that these substances, where correctly administered, did not pose a threat to human health and did not leave harmful residues, and was choosing a restrictive approach which constituted an unnecessary obstacle to trade. Canada regretted that the Community had chosen to reaffirm its ban on the use of certain growth stimulants in livestock production, considering the ban to be an excessively rigorous and unjustifiable approach to a legitimate problem, namely how to provide consumers with safe, residue-free meat. Canada's view was that growth hormones currently approved for use in beef production were completely safe provided that manufacturers' directions and, where applicable, withdrawal periods were respected. International scientific opinion, including the Community's Scientific Working Group, concurred that there was no scientific evidence whatsoever implicating any potential health hazard through the ingestion of meat products which might contain residues of such hormones. The Community had chosen to ignore this advice and not to await the results of further research on the issue by the Office International des Epizooties (OIE) and the relevant Codex Alimentarius committee. The Community had chosen instead to control a production method rather than simply set a product standard -- e.g. residue-free meat. This created serious trade policy concerns since the approach chosen by the EEC created an outright prohibition on imports unable to comply with the ban. In practical terms, a total ban on the non-therapeutic use of hormones was difficult to enforce. Community meat production far exceeded the available Community and member State inspection services. In addition, the very nature of some of the substances defied detection. Three of the hormones occurred naturally, and the quantities present in an animal also varied naturally, e.g. depending on the breed, age, nutrition and, in female animals, the stage of the reproductive cycle. Since, in Canada's experience, it was possible to ensure the safety of consumers by effective means of control falling short of a total ban on a number of growth promoters, Canada's view was that the EEC action went well beyond that which was necessary to address a specific situation. Given that any threat to health from the ingestion of meat products which might contain harmful

residues of such hormones could be controlled by meat inspection, his authorities failed to see the urgency of the EEC's action. Control of internationally-traded meats would be relatively easy compared to domestic production, because the quantities were smaller and sampling would be more effective. The Punta del Este Declaration identified the need to minimize the adverse effects that sanitary and phytosanitary regulations and barriers could have on trade in agriculture. Canada urged the Community to withdraw implementation of the directive as it affected imports so that the important trade policy questions it raised could be fully aired in the Uruguay Round negotiations on liberalization of trade in agriculture.

23. The representative of the European Communities said that consumers in the Community wanted, and had a legitimate right, to eat meat which contained no hormonal residues. Canada had cited some scientific information, but other competent and valid scientific information showed that the introduction of the hormones in question did leave residues. Furthermore, who could guarantee that hormones used in other countries had been correctly administered so as to leave no harmful residues? The Community maintained its view that its measure was consistent with the relevant provisions of the General Agreement and of the Agreement on Technical Barriers to Trade, and therefore was not covered by the standstill commitment. His delegation believed that the Surveillance Body was not the right place to examine this matter, which the Community remained willing to discuss elsewhere with its trade partners.

24. The representatives of the United States, New Zealand and Australia expressed support for Canada's notification, saying that the scientific evidence justified Canada's arguments.

25. The representative of New Zealand said that the matter was being taken up in the Surveillance Body because the Community had not dealt with it appropriately in the forum which was best suited to dealing with such a matter, i.e. the Committee on Technical Barriers to Trade. It was not good enough for the Community simply to express its opinion that the prohibition conformed with the Agreement on Technical Barriers to Trade without being willing to have that view tested by use of the Agreement's provisions on dispute settlement.

26. The representative of Argentina noted that his country prohibited the use of hormones in feeding farm animals. On a separate point, he said that, in the case of foot-and-mouth disease, scientific evidence showed that chilled or frozen meat did not risk contamination; such meat was allowed into the EEC, but not into other markets because of certain scientific arguments. It was important that arguments concerning sanitary matters should not be used unjustifiably as barriers to trade, taking into account the necessity to seek harmonisation on the basis of minimum agreed standards.

27. The representative of the European Communities noted that since Argentina banned the use of hormones in feeding farm animals, Argentinian meat sold very well in the EEC.

Switzerland - Subsidy program for soybeans (MTN.SB/SN/16 and Add.1)

28. The representative of the United States, drawing attention to his country's notification in MTN.SB/SN/16, said that in February 1988, Switzerland had announced the introduction of a price support program for soybeans. The government would support domestic soybean production at about US\$1,500 per metric ton for up to 2,000 hectares of cultivated land and would acquire all production. The average price for soybeans at Rotterdam in 1987 was US\$209 per metric ton, i.e., the Swiss guaranteed price was nearly 750 per cent higher than the free market level. The measure would encourage commercial production of soybeans in Switzerland for the first time. The fact that this industry did not arise spontaneously in Switzerland, and the extraordinary price level that was needed to subsidize it, demonstrated that the Swiss government had decided to ignore clear comparative disadvantage and to produce a crop without any economic justification. The measure would encourage commercial production of soybeans in direct competition with soybeans and soybean meal imports from the United States. The United States exported about 50,000 tons of soybeans and 30,000 tons of soybean meal annually to Switzerland, representing 30 per cent of Switzerland's oilseed imports and 40 per cent of Swiss protein meal imports. The measure would also adversely affect the 9,000 tons of US peanuts exported to Switzerland annually. He concluded by saying that Switzerland was introducing a new subsidy which would harm US trade and which violated paragraph (iii) of the standstill commitment. The United States urged Switzerland to repeal the measure.

29. The representative of Switzerland said that his Government's subsidy program for soybeans was not a trade measure but was an internal adjustment measure necessitated by the particular supply situation on the Swiss market for vegetable fats and oils. Switzerland had one of the lowest levels of self-sufficiency in this sector among the industrialized countries. Eighty per cent of Swiss demand in this sector was met by imports, and all domestic supply consisted of colza or rape-seed. The Government had aimed at improving the basis for security of supply, particularly in periods of prolonged supply difficulties, and had therefore decided to diversify production. The measure was very limited, providing price support for a maximum of 2,000 hectares, i.e. the size of about two major farms in the United States. Given that this was not a trade measure, Switzerland did not consider that it in any way contravened the standstill commitment.

30. The representative of Argentina said his delegation did not accept Switzerland's argument. There were many sources of supply for this product to the Swiss market, and as for the measure's trade effects, he did not understand how such products could be sold competitively when the guaranteed price was almost 750 per cent higher than the free market level. Argentina considered that the measure did violate the standstill commitment, and wanted to know how soybean products were marketed in Switzerland in competition with similar imported products.

31. The representatives of Australia, Brazil and Uruguay supported the views expressed by the United States and Argentina. They reserved their delegations' right to revert to this issue after further analysis of the facts.

32. The representative of Australia wondered why Switzerland considered it necessary to be self-sufficient in this product. The measure flouted the objective of production and trade based on comparative advantage. The goal of self-sufficiency was not an adequate or logical justification for maintaining the subsidy program. Welfare payments might be a better means to promote structural adjustment in such cases.

33. The representative of the United States, referring to Switzerland's statement that the measure was limited in scope, said that since this was a new subsidy program, one could not know what the yields would be. If they reached levels attained in other countries, Swiss production could reach a level equivalent to 20 per cent of US trade, and therefore it was significant. The United States thus considered that the program could improve Switzerland's negotiating position.

34. The representative of Argentina wanted to know by what subsidies to local producers the soybean products were sold on Switzerland's internal market. Such subsidies would be incompatible with the General Agreement, particularly with Article III.

35. The representative of Canada said that his country had a commercial interest in oilseeds and reserved its right to return to this matter at a future meeting.

36. The representative of Switzerland said that his Government was not aiming at self-sufficiency in this sector, since only about 1,000 tons of soybean oil would be produced. He stressed that Switzerland's import régime had not been modified by this measure and that his country would continue to import around 80 per cent of its demand for this product.

37. The representative of Uruguay said his delegation would appreciate Switzerland providing an answer in writing to the question put by Argentina.

38. The representative of Switzerland said his delegation would be willing to revert to this matter at a future meeting.

#### Previous notifications on standstill

#### European Economic Community - Subsidy program for long-grain rice (MTN.SB/SN/6 and Add.1)

39. The representative of India recalled that at the meeting of the Surveillance Body on 8 March, his delegation had asked whether the Community would provide the information requested by Yugoslavia concerning the EEC's

subsidy program for long-grain rice. He noted that the delegation of the European Communities had said that it would provide the information as soon as possible, and India wanted to know when the Community would actually provide the information.

40. The representative of the European Communities said that the Community had not forgotten the request by Yugoslavia and India, and the information would be provided shortly.

41. The representative of India noted that his country had shared the concerns expressed by a number of participants over this matter, and trusted that the information to be provided by the Community would be circulated to all participants in the Surveillance Body.

42. The representative of the United States reiterated his delegation's concerns over the EEC's long-grain rice production subsidy, which the United States continued to view as a violation of the standstill undertaking. He added that the Community was continuing work on regulations specifying the technical characteristics of rice eligible for the new subsidy, and had now moved to work on the second regulation, dealing with the bromotological (cooking) characteristics of the rice. The United States continued to be concerned about the trade effects of this measure, believing that the subsidy would prove to be a mechanism for increasing already excessive aid provided to Community medium- and small-grain rice growers. Since 1980/81, EEC import levies on long-grain milled rice had risen from 169 ECU per ton to 674 ECU per ton in 1985/86. In the same period, import levies on long-grain brown rice had risen from 29 ECU per ton to 389 ECU per ton. The 1985/86 import levies were more than four times the world price of long-grain rice. The Community's long-grain rice market was already extremely protected and further protection in the form of production subsidies would further injure the US rice industry. The EEC was an important market for that industry, accounting for about one-sixth of total US commercial long-grain rice exports valued at US\$76 million. The US rice industry had invested 35 years and a great amount of money to develop the European long-grain rice market and was justifiably concerned about the loss of its investment; there was also great concern within the US Congressional delegations affected. The United States found it disturbing that the Community was introducing new agricultural subsidies at a time when major efforts were being made to negotiate fundamental reforms in the rules governing agricultural trade. It made no economic sense for the EEC to subsidize the production of a crop which was unsuited to its agronomic and climatic conditions. Forcing the production of an unadapted crop through subsidies would always be expensive but never competitive. The United States feared that the EEC would be forced to extend the production subsidies beyond the stated five-year period. The subsidies would form a constituency of long-grain rice producers which were not economically viable without the subsidies. The program would distort and divert trade patterns, causing hardships in third countries and inviting responses from non-EEC producers. Furthermore, it would weaken the meaning of the standstill



undertaking and cause cynicism among participants in the Uruguay Round negotiations. The United States urged the Community to take appropriate steps to live up to its standstill undertaking.

43. The representative of the European Communities said his delegation did not want to repeat all the arguments which it had made on this matter at the Body's December 1987 and March 1988 meetings. The Community did not accept that the program violated any of the provisions of the standstill commitment or of the General Agreement. The Community continued to be surprised at the disproportion of the alleged violation. The program involved 40,000 hectares of rice production, compared to two million acres where long-grain rice was grown in the United States.

44. The representatives of Thailand, Argentina and India shared the concerns expressed by the United States concerning the nature and the trade effects of the Community's subsidy program. Even if the program was limited in size, if all countries implemented such programs, there would be a harmful and distorting proliferation of subsidies on many crops worldwide, and this would imperil the Uruguay Round negotiations on agriculture.

United States - Tax on imported petroleum and petroleum products  
(MTN.GNG/W/1 and MTN.SB/SN/1)  
United States - Customs user fee (MTN.SB/SN/1)

45. The representative of Mexico, referring to the notifications against the United States in MTN.GNG/W/1 and MTN.SB/SN/1, said his delegation was unsatisfied at the lack of progress in US implementation of measures to make the US oil tax and the US customs user fee conform with the United States' international obligations. This lack of action was eroding the political commitments to standstill and rollback.

46. The representative of the United States said his delegation noted Mexico's concerns on this matter.

47. The representative of Canada said that his delegation maintained its concerns, expressed in this and other bodies, over the lack of progress by the United States in bringing the oil tax into GATT conformity.

Indonesia - Prohibition of exports of tropical woods (MTN.SB/SN/1)

48. The representative of the European Communities, referring to the EEC notification against Indonesia in MTN.SB/SN/1, recalled that at the Body's meeting in March 1988, his delegation had requested Indonesia to provide data concerning its prohibition of exports of tropical woods.

49. The representative of Indonesia recalled his delegation's statements on this matter at the Body's meeting in June 1987 (MTN.SB/2) and October 1987 (MTN.SB/3). He added that Indonesia's rattan exports had increased annually in the past three years, in value and volume. Exports had grown in value

from US\$80 million in 1985/86 to US\$93 million in 1986/87; in quantity to 112,000 tons in 1986/87, and to 126,000 tons in 1987/88. The increase in value in 1987/88 was mostly due to the higher prices of rattan (semi-processed and finished products) on the world market. The increase of volume in 1987/88 was mainly due to the increase in demand by importers in their effort to accumulate stocks of semi-processed rattan before Indonesia prohibited it for export on 1 January 1989. Indonesia's share of world trade in finished rattan products exports was still small, approximately 27 per cent in 1987/88.

### Conclusion<sup>1</sup>

50. The Chairman, summing up the Body's examination of the standstill notifications, noted that the examination of the relationship of the measures cited to the standstill commitment had been more detailed in some cases than in others. The Body had not come to any conclusions on this relationship; differing views would be recorded as usual in this report to the TNC. The fact that participants had reverted to a number of notifications that had been discussed at previous meetings indicated that the Body maintained the possibility of giving further attention to the measures brought to its notice from the point of view of their implications for the GATT and for the negotiating process in the Uruguay Round.

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<sup>1</sup>See also the Chairman's summary on implementation of the standstill and rollback commitments, on pages 10-13 of this report.