1987, A GOOD YEAR FOR WORLD TRADE

POSITIVE PROSPECTS

According to recent estimates, the volume of world merchandise exports expanded by 5 per cent in 1987, while the value of merchandise exports rose by 16.5 per cent. Results for the first half of 1988 suggest that, for the year as a whole, trade volume will increase at about the same rate as in 1987.

After five consecutive years of growth, the expansion of trade volume reached a record level in 1987, one quarter above the trade volume at the time of the 1982 recession. At $2,475 billion, the value of exports also reached a record level. Factors that played a major role in this latter trend include the rise in trade volume, increased dollar prices for petroleum and some other primary commodities, appreciation of some major currencies against the dollar, and the impact on dollar prices of national inflation rates.

Manufactures, the most dynamic category in world trade

An estimated 5.5 per cent rise in the volume of exports of manufactures returned this sector to its traditional role as the most dynamic category of merchandise trade. While agricultural output declined for the first time since 1950, the volume of trade in agricultural products increased by 4.5 per cent, its best performance since 1981. In contrast, trade in mining products was up 1 per cent in 1987.

Growth of the volume and value of world exports, 1987

<table>
<thead>
<tr>
<th>Industry</th>
<th>$ billion</th>
<th>Change in value</th>
<th>Change in volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>325</td>
<td>9.0%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Mining</td>
<td>395</td>
<td>15.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1,705</td>
<td>18.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>All merchandise</td>
<td>2,475</td>
<td>16.5%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

The fast-growing sectors of world trade during 1987 include electronic products and chemicals, which accounted respectively for about 12 and 13.5 per cent of world trade in manufactures.

Growth in the volume of world merchandise trade by major areas, 1986 and 1987 (percentage change)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2½</td>
<td>5</td>
<td>Developed countries</td>
</tr>
<tr>
<td>9</td>
<td>6</td>
<td>Developing areas</td>
</tr>
<tr>
<td>5½</td>
<td>2½</td>
<td>Eastern trading area</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>World</td>
</tr>
</tbody>
</table>

Note: The Eastern trading area includes Eastern Europe, the USSR, China and the other centrally planned economies in Asia.

(Continued on page 2)
Dynamic exporters tend to be dynamic importers

Manufactured imports into developed countries continued to expand rapidly, with those countries purchasing 70 per cent of world imports of manufactures. But several developing economies were also strong importers. Hong Kong, Korea, Singapore and Taiwan as a group accounted for 6 per cent of world imports of manufactures in 1987 as well as 9 per cent of world exports in this sector.

In general, dynamic exporters tend to be dynamic importers. For the period 1982 to 1987, twenty-eight out of thirty-two economies showing rapid export growth also showed rapid import growth. The top performers include small economies and large economies, industrial countries and developing countries, and economies located on each of the continents.

The situation of fifteen heavily indebted developing countries improved appreciably. Their exports rose by an estimated 10 per cent while their imports increased by an estimated 7 per cent. As a result, their merchandise trade surplus widened modestly to about $20 billion.

GATT economists note that, since the early 1970s, the economic environment has been characterized by a mixture of positive elements and unresolved problems. Despite some worrisome features in the current situation, they believe that positive developments currently outweigh the negative elements. In particular, trade-depressing effects of large changes in key relative prices between 1985 and 1987 appear now to be giving way to trade-stimulating effects, as adjustments progress in countries and firms that benefited from lower energy prices and more competitive exchange rates. Other positive factors include six months of relatively stable exchange rates and developments with respect to the merchandise trade imbalance of the United States and Japan and to the third world debt problem.

POLICY REFORM IN AGRICULTURE STILL URGENT DESPITE RECENT PRICE RISES

Within the world trading system, agricultural trade presents two distinctive features: the decline in the share of agriculture in world merchandise trade (13% in 1987 as against 46% in 1950), and the increasing amount of commercial policy frictions generated by agricultural policies. Agricultural trade is the subject of many direct and indirect interventions which seem to have helped to reduce the importance of this sector in trade. There is therefore an urgent need for major reform in agricultural policies. Such are the principal conclusions of an examination of long-term trends in world agricultural trade, published in the GATT secretariat report “International Trade 1987/88”.

Despite an increase in the absolute value of agricultural trade (from $28 billion in 1950 to $325 billion in 1987), progress has been less rapid than in merchandise trade. The dollar value of world agricultural exports rose on average by 7 per cent each year, as against 10.5 per cent for total merchandise trade. This slower progress reflects both a lagging growth of trade volume and a declining trend in world prices for agricultural products relative to prices of manufactures.

Agricultural policies a significant factor in performance of agricultural trade

Agricultural trade has been encouraged by reduced transport costs, improved techniques of processing and storage, and some dismantling of trade barriers achieved in earlier multilateral trade negotiations. Additionally, in several developing areas, economic growth has been accompanied by even more rapid growth of food consumption, and thus accelerated import growth.

Agricultural policies have also had an impact on world agricultural trade. On the one hand, import barriers and production subsidies have brought a higher degree of self-sufficiency in certain countries; on the other hand, these measures have often stimulated over-production, part of which is then unloaded in the world market with the aid of subsidies. These policies have led to lower and more volatile world market prices. Such distortions, which reduce the efficiency of agricultural production and agricultural trade, have had a negative impact on world economic growth.

Food products currently account for three quarters of all agricultural trade, and raw materials for the remaining one quarter. The share of food products in total agricultural trade has increased considerably, despite the negative impact of agricultural policies.

The developed countries continue to dominate world trade in agricultural products, though with major variations. Between 1967 and 1984, the industrial countries switched from being a net-importing region to a net-exporting region. In 1985 and particularly in 1986, however, this trend was reversed following the depreciation of the United States dollar. In contrast, the share of developing areas in world imports increased, though they remained substantial net exporters.

(Continued on page 12)
**GATT Articles — 25-27 May**

The discussions in this meeting centred mainly on Articles XVII and XXIV.

One participant maintained that the Uruguay Round presented a vital opportunity to improve Article XVII and other provisions related to state trading, which had largely lost their effectiveness. The weakness of these disciplines sprang, in the first place, from the lack of a clear understanding as to the definition of enterprises covered from the lack of a clear understanding as to the definition of enterprises covered by them. There should also be a common understanding about the obligations themselves, including in particular whether the primary obligation to operate on a non-discriminatory basis should incorporate the most-favoured-nation obligation of Article I and the national treatment obligation of Article III, as well as the requirement that these enterprises should conduct their activities solely in accordance with commercial considerations. The use of countertrade, particularly when it is government-mandated, should also be addressed.

A number of participants expressed similar views, while others believed that a wholesale revision was not necessary; proper compliance with the notification requirements would improve the observance of the non-discrimination and “commercial considerations” obligation. It was also said that the great changes in this area in the past forty years had rendered this Article inadequate. Some delegations expressed interest in discussing countertrade in the context of Article XVII; others doubted the relevance of countertrade to this Article – because most countertrade was undertaken by private enterprises.

1 See information published on GATT Articles in the Uruguay Round File (FOCUS No. 55).

**Safeguards — 30 May-1 June**

Several participants at the outset of the meeting reiterated the importance of negotiations in this area and called for results in time for the TNC Ministerial meeting in December. There was general agreement, in the discussion of specific elements that might comprise a safeguards agreement, on the imposition of a definite time-limit on safeguard actions and on “degressivity” (the winding down of a safeguard measure as the domestic industry concerned recovers).

In one of the two new proposals tabled, a group of countries proposed focusing negotiations on the drawing up of rules and disciplines covering the withdrawal of GATT concessions in an emergency situation stipulated by the current Article XIX. In suggesting specific elements of a safeguards agreement, they said that coming to terms with “grey-area” measures was the fundamental challenge facing the Group. The other submission emphasized the need to establish either a surveillance body or a safeguards committee to view safeguard actions. This proposed body could authorize, once a safeguard action had exceeded a certain time-limit, Article XXVIII negotiations or an industrial restructuring under Article XIX. The Group agreed that, at the next meeting, it will discuss other elements (e.g. measures taken at the border and structural adjustment), and hold a collective stocktaking exercise in advance of the TNC Ministerial meeting.

**Subsidies and Countervailing Measures — 1-2 June**

Discussion continued on the fundamental objectives and concepts of Articles VI (Anti-Dumping and Countervailing Measures) and XVI (Subsidies) of the General Agreement and the relationship between these two articles. Participants examined a communication from Switzerland which suggested redefining existing categories and introducing three different classes of subsidies on the basis of the legal effects attached to each; namely prohibited subsidies, actionable subsidies and non-actionable subsidies. Several delegates questioned the method of subsidy classification and others said the proposal lacked sufficient mention of special and differential treatment of the needs of developing countries.

Delegates also discussed a communication submitted by the United States calling for “clear and precise GATT disciplines over all trade-related subsidies and other substantially equivalent forms of government assistance”. The submission also calls for disciplines to be backed by effective dispute settlement remedies to ensure compliance. The paper addresses export and domestic subsidies, “industrial targeting”, agricultural and natural resource subsidies, and proposes that the Group examine problems of certain “diversionary practices” in the countervailing duty area. Participants said they needed more time to examine the new submission. Others, whose interest in this group relate especially to excessive or abusive utilization of countervailing measures, found the communication to be unbalanced because of its strong focus on strengthening the Subsidies Code.

**Tropical Products — 3 June**

During the first round of multilateral consultations held from 30 May to 3 June, delegations, which included many officials and experts from capitals, reviewed the indicative lists (export product lists, offers or negotiating approaches) submitted by a total of 34 countries. They examined in detail the tariff and non-tariff situation of the developed country markets in the seven

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categories of tropical products selected as a basis for negotiations. Many producers stated their case for reduction or elimination of tariffs and non-tariff measures on individual products. There was a frank exchange of views on how different negotiating approaches might affect trade in the product areas under consideration.

Reassembling for a formal assessment of the results on 3 June, many delegations had found the exercise useful. However, several participants observed there was still uncertainty as to the techniques and modalities to be adopted in the negotiations. Several other participants emphasized the need for ensuring a truly multilateral process of negotiation. Some concern was also expressed about the position taken by one participant that progress in the area of tropical products should be linked with that made in the Negotiating Group on Agriculture and that another major trading country had not yet given any indication as to its offer. On the other hand, Australia announced a number of trade liberalization measures to be implemented over a period of four years starting 1 July 1988, which would also cover tropical products.

The second round of multilateral consultations is scheduled for the week beginning 27 June. It will be followed by a formal meeting (6-8 July), during which the Group is expected to assess the results of the two rounds of multilateral consultations and make the necessary arrangements for the further conduct of negotiations with a view to achieving concrete results before the end of 1988.

- MTN Agreements and Arrangements — 6-7 June
Participants discussed the Anti-Dumping, Government Procurement and Customs Valuation Codes. In regard to the Anti-Dumping Code, several participants agreed the code might be improved if it incorporated certain recommendations made by the Committee on Anti-Dumping Practices such as transparency, on-the-spot investigation, time-limits for responding to anti-dumping questionnaires and threat of material injury.

A communication submitted by the European Communities suggested enforcing certain disciplines in the Code that have led to divergent enforcement policies amongst several signatories. These included conditions for accepting price undertakings, the level of anti-dumping duties and the duration of anti-dumping measures. Many delegations favoured such ideas. However, several participants raised questions about the EC's ideas on adapting the Code to new developments taking place in international business such as assembly operations, the transfer of activities to legally separate sales companies, and massive imports in anticipation of anti-dumping measures. Different views were also held on ideas presented earlier by the United States for increased disciplines in respect of repeated dumping by a single company and specific diversionary dumping practices, e.g. import dumping.

Japan introduced additional material on its proposal on the Anti-Dumping Code which addresses, among other areas, the launching of anti-dumping investigations, the clarification of "like products" in respect to price comparison and injury determination, anti-circumvention measures, and definitions on what is meant by "related company" and treatment of sales. Several delegations addressed other topics including using additional safeguards to prevent abuse of the Code, the role which inflation plays in the determination of dumping and the question of whether price differentiation could be regarded as an unfair practice in today's competitive environment.

- Natural Resource-Based Products — 8 June
Two new submissions were tabled. Australia introduced a comprehensive proposal relating to subsidies and non-tariff support programmes affecting market access in this field. It called for more operationally effective rules on the use of subsidies, reductions in existing production subsidies and other government support practices, and improved transparency and measurement of the impact of support practices adopted by some countries.

The United States paper focused on the issue of two-tier pricing, particularly on energy resources (it defined "two-tier pricing" as any government programme or action which establishes domestic prices for natural resources at some level below the natural market value), and submitted that this practice distorts trade, particularly in the field of natural resource-based products.

The Group agreed to meet again before the end of September to take stock of developments in other relevant Negotiating Groups and to make any arrangements as appropriate to establish a common negotiating basis for natural resource-based products.

- Agriculture — 9 and 10 June
The Group held a preliminary exchange of views on two communications, one from the European Community and the other from the United States.

The EC presented a proposal on short-term measures (other than immediate measures) to be taken in the framework of the negotiations. This communication supplemented the one it presented last February on emergency measures, both aimed at aiding the restoration of healthy market conditions. The EC recalled that these measures would constitute the first stage in a gradual reduction of the negative effects of support on international markets, and that it should be followed by a second stage comprising longer-term measures, the whole forming a single package.

These short-term undertakings would concern the cereals, rice, sugar, oilseeds, dairy products and beef/veal sectors, where the problems remain serious, despite recent improvements in the state of markets. They should be agreed upon in 1988 and implemented in the first half of 1989 at the latest, so as to advance the agricultural negotiations. The EC proposed that participants should undertake to freeze their support for the six sectors at the 1984 levels until a final agreement is reached. The year 1984 had coincided with agricultural policy reforms in a number of countries. The EC considered that the Producer Subsidy Equivalent (PSE) measure, developed by the OECD, could be used provisionally, with a limited number of modifications, without prejudging the shape of the final measurement unit that might be established in the negotiations.

In its communication the United States developed the food security aspects outlined in its comprehensive negotiating proposal. It drew a distinction between food security and self-sufficiency, arguing that the former did not require the latter. In fact, a liberalized trading system would effectively contribute to food security: elimination of restrictions on trade in food products would allow better supply, better allocation of resources and more stable prices. Maintaining

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stocks at a sufficient level to cover short-term needs would make it possible to make up for small variations in agricultural production of the kind experienced over the last twenty-five years.

In addition, the United States proposed removing from GATT Article XI:2(a) which permits contracting parties to restrict or prohibit exports of agricultural food products to relieve critical shortage.

● Trade-Related Investment Measures — 13, 14, 17 June

Three major proposals were tabled. The Japanese submission stated that the Group had reached the point at which the question of what disciplines should be established to avoid restrictive and distorting effects of investment measures on trade could be tackled. It presented a methodology which sought to facilitate the examination of the effects of trade-related investment measures (TRIMS) by classifying them into those which are related investment measures (TRIMS) methodology which sought to facilitate the examination of the effects of trade-related investment measures (TRIMS) by classifying them into those which are clearly inconsistent with GATT and those which are not but which are, nevertheless, relevant to its provisions. The submission went on to employ this methodology with respect to a series of seven TRIMS already discussed in the Group. The European Communities presented a list of eight TRIMS which they considered harm trade and should therefore be subject to appropriate disciplines.

Using a broader brush, the United States suggested that some GATT concepts like non-discrimination, transparency and dispute settlement were applicable to TRIMS. It called for additional GATT provisions to ensure that the harmful trade effects of TRIMS are avoided. The ensuing debate reaffirmed the point that at issue were trade restrictive and distorting effects of the measures, and not the investment policies per se. Some delegations felt the work had progressed to the point where the Group could start considering possible disciplines on the damaging trade effects of TRIMS; others viewed this as being premature.

● Surveillance Body — 21 June

The Body considered an unusually large number of notifications of alleged breaches of the standstill commitment. Argentina challenged export refunds offered to Venezuela by the EC on boned beef. The Communities said that the refunds had met specific circumstances related to the loss, for sanitary reasons, of a previous shipment to Venezuela.

The United States notified the addition of ice-cream, yogurt and other milk products to those already covered by restrictions under Canada's Dairy Import Control List. Canada claimed that the new measures were consistent with the GATT and were necessary for the enforcement of its national supply management programme for manufacturing milk.

A United States complaint against Greece became the first notification to be withdrawn following an announcement that the Greek import ban on almonds had been lifted.

South Africa notified quota restrictions imposed by Canada on imports of worsted wool fabric and clothing from South Africa.

Both Chile and the United States complained about the European Communities' apple import quota system. It was recognized that this matter is now the subject of an Article XXIII dispute settlement panel established by the GATT Council. The US was concerned at the possible diversion of trade into the American market at a time of record harvests and low prices.

The United States raised a new Canadian production subsidy on white pea beans which, it said, would lead to unfair competition in the Canadian and other traditional US markets. Canada disputed US comments concerning both the nature of the programme and its relevance to standstill.

Canada, in its turn, notified the EC ban on the use of artificial hormones for the breeding of farm animals. It considered the ban to be inconsistent with the GATT and with the Agreement on Technical Barriers to Trade. The EC disputed this and pointed to evidence—challenged by Canada and others—that there was a genuine danger to human health involved.

The United States raised a price support programme announced by the Government of Switzerland for the production of soya beans. While the US charged that the support price was 750 per cent above the world market price, the representative of Switzerland emphasized that the measure was aimed at very small-scale and experimental production.

The Surveillance Body also had a general debate about progress in the area of "rollback" where, apart from a conditional offer made by the European Communities, a considerable number of consultations on specific requests have not led, so far, to any actual rollback undertakings. An attempt was made to impose a fairly tight timetable on the process. While it was not successful, the Chairman remarked that the debate had reflected widespread concern at the lack of rollback undertakings and a need for the process to provide some convincing achievements in time for the mid-term review Ministerial meeting of the Trade Negotiations Committee.

● Functioning of the GATT System — 20 and 22 June

There was a wide ranging discussion of the need both to achieve greater coherence of trade, financial, monetary and development policies and to ensure that GATT, through the improvement of its own mechanisms and its relations with other relevant international institutions, made a positive contribution to this process.

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Participants discussed the question of greater Ministerial involvement in the GATT. While considerable agreement has been reached on the idea that the Contracting Parties should meet at Ministerial level every two or three years— or even annually— in the view of some participants, there is still an absolute role of a smaller representative Ministerial body, which has also been proposed. In the view of some participants, such a limited body, though having no executive powers, could be an invaluable source of guidance to the contracting parties—and would offer a less rigid forum for discussion of policy issues. Similar to the informal trade Minister’s meetings which generally take place twice a year outside the GATT, it was proposed that the Negotiating Group should concentrate on criteria for establishing the «legitimacy» of such a Ministerial body—in terms of its status and relationship to other GATT bodies—before moving on to discuss its objectives, functions, and participation. However, some delegations still considered that participation was a substantial problem. They saw a selective membership detracting from traditional democratic and open practices in the GATT.

Some suggestions regarding the future role of the Director-General were considered.

Participants also discussed a communication from Jamaica, which was an elaboration of views submitted last year on the group’s three negotiating objectives, and a paper from India on behalf of the developing countries. The latter addressed surveillance in the GATT and the regular monitoring of trade policies and practices of the contracting parties, and issues related to the scope, frequency, format and procedures for such a surveillance mechanism.

### Dispute Settlement 23-24 June

Discussion regarding the strengthening of the rules and procedures for GATT’s dispute settlement mechanism focused primarily on panel reports and procedures, mediation and conciliation, surveillance and selection of panelists. Participants also discussed a new submission by Mexico. The paper, which incorporates much of the group’s work to date, also considered how special and differential treatment for developing countries could be incorporated into an eventual agreement on dispute settlement. Several delegations praised the report, while others, citing special provisions in the paper for developing countries in areas including specialized legal assistance, supplementary training courses, and post-consultation reviews by the Contracting Parties, believed such special provisions should be applied also for the benefit of smaller industrialized countries.

At the request of several participants, the Group also discussed the need for further clarification of procedures when disputes involve several complainants or where third contracting parties wish to intervene in a panel proceeding. Several delegations emphasized the need for expanding third party access to information. Others believed that a wider participation by third parties in disputes brought before the Council could promote greater compliance with the recommendations of adopted reports. Still others believed such a practice would complicate and prolong the settlement of a dispute.

### Tariffs 24 June

A big contribution to the work of the Group was provided by a comprehensive proposal tabled by Australia, Canada, Hong Kong, Hungary, the Republic of Korea, New Zealand, and Switzerland. The proposal emphasized that tariff liberalization remains a central element of the Round and stressed the need to demonstrate progress in this area by the time of the Ministerial TNC meeting.

The submission tackled the major issues facing the Group, including: base rates (MFN bound rate or applicable MFN rate as of 1 January 1988), negotiating approach (basically a tariff-cutting formula similar to that used in the Tokyo Round which would also reduce or eliminate low duties and deal with tariff escalation), bindings (the objective is to bind all negotiated tariff reductions together with an increase in the level of developing-country bindings), and participation (all developed and developing participants, but taking into account the individual economic needs of the latter).

During the meeting, many participants expressed strong support for various elements of the proposal, in particular the use of a tariff-cutting formula. Some delegations, however, sought clarification of certain points. Two participants announced forthcoming tariff reductions: Australia reported a phased tariff-liberalization programme, while Brazil disclosed that recent changes in its customs system will lead to a significant reduction of its tariff average.

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**Uruguay’s Zerbino becomes TNC Chairman as negotiating bodies begin to look towards Montreal meeting**

Work in the Uruguay Round during 1988 was reviewed in several meetings at the end of July. While there was concern that progress was unbalanced with respect to some negotiating groups, there was some considerable satisfaction at the overall pace and intensity of the work. Particular attention was given to the mid-term Ministerial meeting of the Trade Negotiations Committee to be held in Montreal from 5 December. It was agreed that Uruguay’s Minister of Finance and Economy, Mr. Ricardo Zerbino Cavajani, would chair meetings of the TNC at Ministerial level.
Trade Negotiations Committee — 26 July

Following the presentation of reports from the Group on Goods, the Group on Services (see separate items) and the Surveillance Body, the Committee embarked on a general debate on progress in the negotiations and prospects for the Montreal Ministerial Meeting.

Many comments on the mid-term review in December urged the need for a positive signal to emerge from Montreal, reaffirming that a very substantial process of reform was taking place in the trading system. A sufficient degree of political will would be necessary to energize the negotiations in the months remaining before the December meeting.

Many participants drew attention to matters of particular importance to their delegations. Some stressed that the negotiations were closely interlinked with activity elsewhere in relation to money, finance, development and debt. A number of developing countries emphasized the necessity of the negotiations taking adequate account of their special needs.

Several delegations referred to the importance of the political undertakings on standstill and rollback. Some considered that there had been a number of breaches of the standstill, while others felt that the situation might have been far more serious without the Uruguay Round and the undertakings it entailed. There was more general concern that no rollback action had so far been undertaken despite a large number of requests and consultations.

In the context of standstill, Brazil protested at the recent decision by the United States to impose trade sanctions because of Brazil's alleged failure to grant patent protection to US pharmaceuticals. Brazil considered the US action to be contrary both to the General Agreement and to the standstill undertaking and reserved its rights under the GATT. The publication of the list of potential items against which action would be taken was likely to disrupt trade. The measures, when taken, would bar the export of the selected Brazilian products to the US market. The United States stated that it had acted to prevent the "piracy" of its firms' intellectual property through Brazil's failure to offer adequate protection and stressed that problems in this area should be negotiated multilaterally in the GATT.

It was pointed out that, while the Ministerial meeting was an important step in the conduct of the Round, it was only a step, with the real deadline being at the end of 1990. It would be important to maintain a careful balance between what was achievable in December 1988 and what would be necessary at the end of the Round.

The TNC agreed that, since Mr. Enrique Iglesias was no longer Foreign Minister of Uruguay (having become President of the Inter-American Development Bank this Spring), the Minister of Economy and Finance of Uruguay, Mr. Ricardo Zerbino Cavajani, would chair the Trade Negotiations Committee at Ministerial level.

A number of practical arrangements for the mid-term Ministerial Meeting were noted by the Committee. The meeting will commence in the morning of Monday, 5 December.

Group of Negotiations on Goods — 25-26 July

The GNG held a wide-ranging debate covering many aspects of the work of the fourteen negotiating groups under its purview. Statements from a number of developing countries made clear their concerns with respect to a perceived lack of progress in certain groups of special interest to those countries. Work in the tropical products, safeguards, agriculture, textiles and clothing and other market access groups was mentioned frequently as having disappointed expectations. However, it was generally accepted that exactly parallel progress could not be expected in all the groups and that, overall, the pace of the negotiations had been satisfactory and impressive.

Many industrial countries considered that the fears expressed were unwarranted; their view was that, in general, remarkable progress was being made in the trade round, especially when compared with previous rounds. Nor did they accept the view, put forward on behalf of developing countries, that in the Group on Trade-Related Aspects of Intellectual Property Rights, proposals relating to negotiations on standards for intellectual property protection went beyond the mandate in the Punta del Este Declaration and therefore jeopardized progress.

In summing up the debate, the Chairman noted that the fourteen negotiating groups had now held over 100 formal meetings involving more than 100 countries and some 500 working papers. He said that the debate had demonstrated how wide was the participation and deep the commitment to the Round. He observed a recognition by all participants of the importance of the forthcoming mid-term Ministerial Meeting in Montreal. To secure success in Montreal, it was important for participants not merely to pursue their own interests but to carefully note those of others.

It was agreed that the GNG would next meet on 16-18 November when it would consider the report to be forwarded to the Montreal TNC meeting. In the meantime, the chairmen of the negotiating groups would be invited to prepare reports on the work of the Group which would include those propositions on which Ministers would be asked to make decisions.

GATT Articles 27 and 30 June

The Group continued its discussion of certain GATT Articles which participants had not yet examined in detail and focused on new proposals.

The Group discussed two proposals put forward by Argentina and Nicaragua concerning Article XXI on trade measures taken for reasons of national security. Delegates of these countries considered that the conditions of application of Article XXI need to be clarified, in particular as regards the concepts of "essential security interests" and "time of war or other emergency in international relations", the evaluation of which is left to the discretion of the parties invoking the provision. These countries also considered that a link should be established between security matters with the purview of the United Nations and trade measures taken under Article XXI. Various opinions were expressed regarding the extent of control that could be exercised over the introduction and maintenance of such measures.

The Group also discussed Article XXV: 5, which, in exceptional circumstances, allows contracting parties to be released from their GATT obligations. Particular attention was given to the establishment of precise criteria defining exceptional circumstances and of specific time-limits for the duration of waivers, as well as to the linkage between these two aspects. Reference was also made to the problem of bringing existing waivers into conformity with any new rules that might be elaborated.

The Group also examined Articles XII, XIV, XV and XVIII. Some delegations were of the view that the provisions of Article XVIII should be reviewed in the light of changes in the international monetary system and experience gained about the economic effects of those measures on adjustment. Other countries
consulted that account should be taken of unfavourable developments in the international trading system and access to markets, as well as their negative influence on serious balance-of-payments problems. Varying opinions were also expressed concerning the effectiveness of consultations in the GATT Balance-of-Payments Committee and procedures for those consultations, as well as the duration of any restrictions. Reference was made to the relationship existing between the Negotiating Group on GATT Articles and other negotiating groups, in particular the Group on the Functioning of the GATT System.

New Zealand put forward a new proposal concerning Article II:3(b) of the General Agreement, designed to introduce greater transparency, clarity and security in regard to tariff binding. Some participants considered that New Zealand's proposal provided some useful clarifications while others were of the opinion that the existing rules of Article II were sufficiently explicit.

The Negotiating Group also continued its discussion of proposals and views put forward at earlier meetings in regard to Articles XVII and XXIV.

- **Subsidies and Countervailing Measures**

  **28–29 June**

Participants returned to proposals submitted by Switzerland and the United States and continued their discussion of the fundamental objectives and concepts of Articles VI (Anti-Dumping and Countervailing Measures) and XVI (Subsidies) of the General Agreement. Canada introduced preliminary ideas for a possible negotiating framework for subsidy disciplines, parameters for the scope and application of countervail, remedies and dispute settlement.

In their examination of the Swiss proposal, participants remained sceptical about redefining existing categories and classifying subsidies on the basis of the legal effects attached to each. Some participants said they were concerned about the need to make constant amendments to take account of new subsidy practices and the possible danger involved with relabelling some subsidies in order to circumvent prohibitions or actionability. Others said the proposal should be expanded to give equal weight to disciplines regarding countervailing measures.

In regard to the US proposal, participants expressed concern about the suggested approach which, instead of building on existing disciplines, addressed new areas which some felt went well beyond the mandate of the group. Participants said the proposal to strengthen subsidies disciplines and to apply countervailing measures to "other forms of government intervention substantially equivalent to a subsidy" could transform the Subsidies Code into a kind of general remedy for all measures which may affect international trade. Some participants supported the proposal to effectively prohibit all export subsidies regardless of the product or the level of development of the country providing the export subsidy, whereas others said export subsidies played an important role in the development policies of developing countries and that such a prohibition was, therefore, not justified. While participants generally agreed that countervailing duty issues were lacking from the US proposal, some welcomed its broad objectives and call for clear, effective and precise set of rules on subsidies. They said the lack of such disciplines was at the root of many disputes, which undermined the credibility of the multilateral trading system.

- **Tropical Products — 1 July**

The second round of multilateral consultations from 27 June to 1 July was marked by the submission of more export-products lists and a Japanese proposal containing negotiating guidelines aimed at the fullest liberalization of trade in this field. The proposal envisaged reducing or eliminating tariffs and non-tariff measures on the widest possible range of tropical products, and the possible implementation of tariff reductions in 1989. Japan suggested that negotiations on some tropical products which are direct substitutes for, or competitors of, temperate products (e.g. rice, vegetable oils, tea and tobacco) be pursued in the Agriculture Group. In assessing the results of the two rounds of consultations, a number of participants urged that, in keeping with the special attention accorded to tropical products in the Uruguay Round, the Group should step up its pace of work. Many participants welcomed the Japanese submission as a positive step in the negotiations but several of them observed that certain details of the proposal have yet to be specified. The exclusion from the proposal of some major tropical products was also questioned.

Meeting formally on 1 July after the informal consultations, the Group approved the arrangements for the further conduct of negotiations under which participants were encouraged to continue presenting offers for trade liberalization in this area, or elaborate on previous ones, not later than mid-September 1988. After that date, participants will start a programme of consultations which will take place from September to early November. The Group will then meet to assess the results achieved and decide on further arrangements as necessary.

- **Trade-Related Aspects of Intellectual Property Rights**

  **5–8 July**

Participants examined two new proposals: one put forward by Switzerland, the other by the European Community.

The Swiss proposal, an elaboration of considerations put to the Group late last year, proposes that any additional GATT rules in the area of intellectual property rights should build on the existing framework. The proposal suggests incorporating into the General Agreement three principles, namely the avoidance of trade distortions, the granting of national treatment and the enforcement of the observance of intellectual property rights. Indicative lists would serve as a way of defining these principles in concrete terms and would provide examples of trade-distorting effects caused by excessive or insufficient, or lack of, intellectual property rights. The Swiss proposal also calls for the establishment of a committee within GATT which would co-operate with the World Intellectual Property Organization (WIPO) to develop the international law related to intellectual property and, if need be, the international norms in this area, including specific mechanisms for the prevention and settlement of disputes and technical co-operation.

The Swiss approach was discussed in detail. Many countries asked questions

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about the indicative lists, and about the delimitation of activities between WIPO and GATT.

The European Community also put forward an elaboration of its proposal made last autumn regarding the enforcement of intellectual property rights. The EC suggested a set of guidelines and objectives for resolving trade problems resulting from inadequate or excessive substantive standards on the protection of intellectual property. The EC believes that an agreement in GATT should at least cover patents, trade marks, copyright, neighbouring rights, computer programmes, models and designs, geographical indications (in particular appellations of origin) and those acts which are contrary to honest commercial practices. The main objective of the EC proposal is to eliminate trade distortion.

For each of the intellectual property rights addressed, the EC proposal develops principles for their protection, especially in regard to the scope and duration of protection. Taking account of the specific needs of intellectual property protection, it provides for the application of certain general GATT principles such as most-favoured-nation treatment and national treatment, and for GATT mechanisms for surveillance and dispute settlement.

Furthermore, the EC proposes that parties to the agreement undertake efforts to adhere to the Paris and Berne conventions, and urges them to adhere to other conventions which afford protection to intellectual property. Parties to the agreement should also participate in the elaboration and implementation of new substantive standards in other international organizations, and, if those efforts are not successful within a reasonable period, within GATT.

Numerous and detailed questions were put to the European Community on the various elements of its proposal, in particular in regard to appellations of origin.

Referring to the Swiss and EC proposals, a number of delegates from developing countries reaffirmed their interpretation of the Uruguay Round objectives in this area, claiming that the objectives do not provide for negotiations on substantive standards for the protection of intellectual property.

The second part of the WIPO study on the existence, scope and form of the generally internationally accepted and applied standards for the protection of intellectual property, covering industrial designs and geographical indications, was submitted to the Group.

- **Safeguards – 14-15 July**

The Group discussed two proposals submitted at its July meeting, while Switzerland introduced a further paper on its own ideas. The Swiss approach was founded on the belief that safeguard rules must deal effectively with situations of structural difficulty in order to cover circumstances in which "grey area" measures are currently employed. In other words, rules would have to be established, creating disciplines consistent with GATT philosophy in regard to both measures at the frontier and domestic measures taken to deal with structural difficulties. The rules suggested by Switzerland, dealing with the latter, laid emphasis on the responsibility of industry itself to adjust and the relatively subsidiary character of government intervention which should be taken in conformity with international obligations.

The Group went on to discuss three individual specific elements which might be components of a safeguards agreement. There was a debate, firstly, about domestic adjustment assistance measures, with some delegations taking the view that safeguard actions should only be permitted if a programme of structural adjustment measures were undertaken at a government level. Others took the view that industries themselves must remain responsible for their own adjustment which should not be dictated by governments or by an international organization. With respect to the question of compensation or retaliation for safeguard actions, views were put forward to the effect that they were effective deterrents against the use of such action but, on the other hand, that they served to drive governments, which were not prepared to pay a price for Article XIX measures, towards the use of "grey area" action. The Group also discussed notification and consultation requirements.

- **Dispute Settlement – 11 July**

In addition to a continued consideration of major issues under examination in the group, participants discussed two papers which had been prepared as background material for the Group: one on multi-complainants procedures and intervention by third parties in GATT dispute settlement proceedings; the other on differential and more favourable treatment of developing countries in the GATT dispute settlement system.

Views differed on the need to formalize procedures in the light of the increasing number of third parties expressing strong interest in bilateral disputes between two other contracting parties. Some participants favoured formalizing procedures to safeguard the rights and interests of third parties; others felt that disputes brought before the Council or the standing committees would be different in kind, and that applying specific procedures for third parties would unnecessarily complicate dispute settlement proceedings. There was general agreement, however, that some increased level of discipline, possibly through flexible guidelines, would be beneficial.

Views also diverged on differential and more favourable treatment of developing countries in the GATT dispute settlement system. Several participants said the Group's mandate did not specify changing the balance of the dispute settlement system. However, should changes be agreed, any modifications would have to safeguard equal treatment for all contracting parties. Other delegates maintained that the current dispute settlement procedures were not adequate in meeting the needs of developing countries and proposed that special services such as training and legal assistance be made available. One delegation said it was not insisting on having a different set of obligations for developed and developing countries, but hoped that agreements to change the current dispute settlement system would include more flexibility for developing countries.

- **Agriculture – 13 and 14 July**

The Cairns Group proposed a framework approach for initiating liberalization of international trade in agriculture, to be agreed during the midterm review in December, at Montreal. This approach linked short- and long-term elements, together with transitional provisions.

As first steps to long-term reform of agricultural trade, the Group proposed, inter alia, a commitment to introduce an

1 The Cairns Group comprises Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.
immediate freeze on support and subsidization which distort trade and to reduce the aggregate monetary level of support by 10 per cent in each of the years 1989 and 1990, this commitment constituting a downpayment consistent with long-term multilateral agricultural reform. In addition, the first stages of such a long-term reform should focus on increasing import access opportunities, lowering of administered prices, maintaining existing production control and acreage reduction programme, and on stock disposal disciplines.

As regards transitional measures, the Cairns Group proposed that Ministers should undertake to negotiate annual reductions in support and protection and to elaborate transitional rules aimed at a progressive reform of the GATT rules and disciplines. Ministers should agree at Montreal to commence negotiations in 1989 with a view to full liberalization of agricultural trade in the long term. This objective would be achieved by elaborating rules and disciplines for improving market access (elimination of tariff and non-tariff barriers, and likewise waivers and exceptional regimes for agriculture), and prohibiting the use of any subsidies and public aids having an effect on agricultural trade. Only humanitarian measures, or measures decoupled from production and marketing, could be maintained, and then subject to specific conditions.

The Cairns Group proposal also included a framework for negotiations on sanitary and phytosanitary measures. In addition, in the context of more favourable treatment, developing countries would be exempted from contributing to the first steps to long-term reform of agriculture.

Members of the Cairns Group underlined certain aspects of the proposal. Australia, for its part, presented a communication spelling out some of the concrete commitments that would have to be undertaken during the first stages of a long-term reform.

In their preliminary comments, some participants pointed out that the Cairns Group proposal was more detailed in regard to short-term measures than for long-term ones. Some of them noted that the progressive character of the approach seemed promising. Many participants expressed the view that this was a positive contribution to the negotiations; other countries voiced reservations, and many requests for further details were made.

Jamaica presented “elements for a proposal by developing countries”, drafted in consultation with a number of developing countries. This paper constitutes a framework approach aimed at ensuring that developing countries can secure benefits from the negotiations on agriculture.

The proposal is divided into four sections: 1) issues considered important by developing countries; 2) basic principles that should apply to trade in agriculture; 3) understandings and urgent measures to be reached or taken in 1988 in order to reduce uncertainty, imbalance and instability in world agriculture markets; 4) specific multilateral commitments, including short-term or emergency measures, transitional arrangements to be implemented in the course of 1988 and 1989, exchange of concessions as appropriate, covering tariffs, non-tariff measures (including quantitative restrictions), subsidies, sanitary and phytosanitary regulations.

A number of developing countries welcomed the proposal which, in the view of some of them, seemed to go to the root of the problems they were encountering in agricultural trade.

The Negotiating Group continued its examination of the European Community’s proposal on short-term measures. Some representatives underlined that it now seemed clear that short-term measures would be needed; nevertheless, some doubt was expressed regarding the limited coverage of the measures proposed by the EC. There was also discussion as to the linkage that would be needed between short-term measures and long-term ones – a linkage that some representatives saw as being only implicit in the Community proposal.

The Group also continued its discussion of the United States proposal regarding food security. Some countries indicated that they would be presenting proposals on that issue. Some others considered that the United States proposal would not suffice to ensure real food security, and that the matter was undeniably of political importance.

- Non-Tariff Measures
  18–19 July

In line with the procedures adopted in February 1988, the Group held a first examination of the suggestions tabled by various participants on measures to be covered by, and the approaches to, the negotiations. A group of 15 participants, comprised of both industrialized and developing countries, put forward a general framework for the negotiations with a view to expediting them. This submission envisaged the adoption of a number of principles to serve as guidelines in the negotiations and set out various approaches to the negotiations. It favoured multilateral and formula approaches whenever possible, and suggested that the request-and-offer procedure be used as a supplementary approach.

Japan, the United States and the European Communities also advanced proposals in which they suggested that multilateral approaches be adopted for preshipment inspection (Japan, US and EC); rules of origin (Japan and US); customs and consular formalities, and fees and other import charges (EC); and import deposit systems and port taxes (Japan). The US and the EC submissions also contained specific lists of measures maintained by individual participants which could be taken up in the negotiations.

- Textiles and Clothing
  21 July

Participants continued their examination of techniques and modalities which would permit the eventual integration of the textiles and clothing sector into GATT. They also heard a statement by Indonesia on behalf of the nineteen members of the International Textiles and Clothing Bureau (ITCB). The statement was an elaboration of an ITCB proposal presented last May and calls for a reversal of the restrictive measures under the Multifibre Arrangement; the elimination of concepts and practices under the MFA which are incompatible with the General Agreement; the effective application of GATT principles relating to developing countries to trade in textiles and clothing, and the termination of the MFA and all associated bilateral agreements.

Participants further examined a proposal by the Nordic countries for an analysis to be carried out by the secretariat of the possible global economic and trade consequences of dismantling the MFA and other trade restrictions in this field. Some participants felt that existing

(Continued on page 11)
A number of previously-tabled papers were discussed and three new proposals were debated. Other delegations believed that such a study, which would be completed in the Spring of 1989, would provide the Group with the information needed to move ahead. The Group decided to defer further consideration of this matter to its next meeting.

A number of delegations expressed concern over the slow progress being achieved in the work of the Group and urged participants to give priority attention to the textiles and clothing sector since it was one of the most important in the Uruguay Round for many participants.

Trade in Services
18-22 July

A number of previously-tabled papers were discussed and three new proposals were presented by Mexico, Switzerland and Australia.

The proposal by Mexico expanded the idea that economic development should be an integral part of the framework agreement and any sectoral agreements. It included the expansion of production, productivity, employment and exports related to the services sectors of many countries. It then itemized ten specific measures which followed from the general objectives. Among those measures, Mexico proposed the notion of "relative" reciprocity; the inclusion in the negotiation of labour-intensive services and labour flows; preferential arrangements for developing countries and measures to speed up the transfer of technology to those countries. At the same time, Mexico suggested that "right of establishment" should not be covered in the agreement and that laws and regulations relating to the development interests of developing countries should not be challenged.

Many developing countries supported the approach of the Mexican proposal. Industrial countries welcomed it as a contribution to the negotiation and most were in agreement with the overall objectives. Concern was expressed, however, with some of the detailed measures: for instance, the inclusion of labour mobility, the exclusion of "right of establishment", the interpretation of "relative" reciprocity and the possibility of "blank cheque" exclusions of laws and regulations regarded as being development-based.

In their new proposal, the Swiss delegation spelled out in considerable detail an approach outlined earlier in the year. This approach envisaged the use of an "optional most-favoured-nation" arrangement under which bilateral or plurilateral services agreements – negotiated with reference to some overall principles – could be extended to third parties upon request. The plan envisaged principles of open competition in services including the application of negotiated with reference to some overall principles – could be extended to third parties upon request. The plan envisaged principles of open competition in services including the application of rules of the type employed in GATT on subsidies, anti-dumping measures and technical barriers to trade, as well as rules on State monopolies and on some form of safeguards. In preliminary reactions to the new Swiss proposal, some participants continued to express doubt about the practical operation of the "optional MFN" approach.

The Australian proposal was termed an "illustrative outline" of a framework agreement and, for the first time, attempted to indicate what such an agreement might look like in practice. It had three sections: objectives and scope, obligations and benefits and institutional provisions. The approach rested upon the creation of a number of strong rules of general application alongside a balance of rights and obligations and market access benefits. Such a balance would be established through an initial listing, in the form of schedules, by each individual member country, of national regulations to be excluded from the coverage of the agreement and market access undertakings. Through an "open season" procedure, the schedules of exclusions would be shortened and the market access undertakings expanded through regular rounds of plurilateral negotiations.

The meeting also discussed a variety of background papers prepared by the secretariat to aid the negotiations. One, a draft glossary, sets out a number of terms used frequently in meetings of the GNS, together with an attempt to describe the basic concept to which the discussion in the GNS relates. It was agreed that the glossary could be further developed so as to represent an inventory of the meanings assigned by various governments to certain concepts and principles and therefore provide a tool for identifying convergencies and divergencies. Further discussions covered questions relating to the definition of trade in services, statistics, and the eventual coverage of the framework agreement.

GATT Meetings
Provisional programme of meetings for September

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COUNCIL — 20 July

FURTHER CONSULTATIONS AND DISCUSSIONS ON VARIOUS ITEMS

At the last meeting before the summer recess, GATT Council members discussed several disputes. In particular, two requests were made to establish panels. The Council will revert to these requests at its next meeting, on 22 September.

Korean restrictions on meat imports

New Zealand complained that it had not managed to obtain consultations with Korea under GATT Article XXIII:1, three months after making its initial request. At the 15 June Council meeting, New Zealand said it had not received the same treatment as the United States and Australia, for a similar case. New Zealand said it had shown sufficient understanding and renewed its request for a panel to be established.

Korea indicated that it would be able to hold bilateral consultations with New Zealand in the week of 25 July. Korea said that consultations would be based on concrete proposals which, it hoped, would lead to a pragmatic solution to the dispute.

The United States, Australia, Canada, the European Community, Uruguay and Hungary supported New Zealand's request. They underlined the risks inherent in delaying consultations under the GATT dispute settlement system.

Furthermore, the United States regretted that eleven weeks after the Council's decision to establish two panels to examine the United States and Australian complaints concerning the Korean meat import system, consultations with Korea on practical arrangements for the work of those panels had not yet been completed.

United States quotas on sugar imports

Australia again expressed its concern about US quotas of sugar. Quotas have reached their lowest level in GATT history. Australia hoped that a panel would be established to determine whether the quotas were consistent with the General Agreement, in spite of US allegations that its system was consistent with GATT.

The European Community said it shared Australia's concerns. The EC said it was holding consultations with the US under Article XXIII:1, and was also addressing the broader issue of the 1955 waiver granted to the United States in regard to certain import restrictions on agricultural products.

Brazil, Thailand, Nicaragua, Canada and Colombia supported the substance of Australia's request, and expressed their interest in the matter.

After the United States pointed out that Australia had been rather late in advising the Council of its desire to discuss the matter, the Council agreed to revert to it again at its next meeting.

Three complaints against Japan withdrawn, because of liberalization measures

The Chairman of the Council informed members that because Japan decided to introduce certain market-opening measures, the United States, Australia and New Zealand had withdrawn their complaints against Japan regarding import restrictions on meat and citrus fruit. Two panels on the matter had been set up in May.

Japan outlined the content of domestic measures decided on 1 July. The measures are to be applied on an autonomous basis and in accordance with the most-favoured-nation clause, and were said to be a contribution to the Uruguay Round and to the negotiations on agriculture in particular.

Japan indicated that the quotas would be increased over a two-year period, prior to being eliminated. In addition, tariff reductions would be made on certain fruits.

Australia, the United States, Canada, New Zealand, Israel and Jamaica commended Japan on opening its market in this way, a measure that was particularly important for meat products. Furthermore, Jamaica and Malaysia expressed the hope that Japan would also apply its market opening measures in the area of tropical products.

Accession of Bolivia

Bolivia informed the Council that the Working Party established to examine its application for accession to the General Agreement could begin its work. The Working Party is to examine the Bolivian memorandum on its foreign trade regime and economic policies. Bolivia said it had carried through an exemplary adjustment of its economy by encouraging trade liberalization and transparency, especially in regard to the rate of inflation, which had been considerably reduced.

1 See FOCUS No. 55.

TRADE IN AGRICULTURE (continued from p. 2)

Continuing upward pressure on prices

Over the past eighteen months, dollar prices of many agricultural commodities have picked up after a long period of decline. In relation to the trough of 1985, world prices of agricultural products have progressed by more than 30 per cent. Several factors have contributed to this recent recovery:

- strong economic growth in a number of East Asian economies and China, coupled with increased imports by certain countries;
- declining world agricultural output reflecting the depressed market prices prior to 1987, bad weather, and reduced support prices in certain countries;
- depreciation of the US dollar.

World stocks of several commodities have declined (inter alia, wheat, cotton, maize, soya beans). Such shortages will be aggravated by the severe drought in the United States.