We now have at hand all the elements necessary to finally carry the Round to a successful conclusion,” reported Mr. Arthur Dunkel, Chairman at officials-level of the Trade Negotiations Committee (TNC) on 30 July. He urged participants to “negotiate boldly,” and stressed that the Round “is too important for the world economy, and for each and every economy to risk failure or a drawn-out delay.”

In reviewing the state of play in the negotiations, Mr. Dunkel concluded that “it is crystal clear that the Uruguay Round is poised to enter the decisive phase immediately after the summer recess.” He noted that:

• In agriculture, textiles and clothing, market access and services, “the combination of the work done before and after Brussels puts participants in a position to move with determination in the phase of negotiations proper”;
• In many of the rule-making areas and in TRIPs (Trade-Related Aspects of Intellectual Property Rights), “matters are ripe for the final political trade-offs since most, if not all of the preparatory work has already been done”;

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Ms. Caroline Wyndham-White unveils a plaque on 11 July naming the GATT Council room in honour of her father, Sir Eric Wyndham-White, the first Director-General of GATT. Assisting her are Ambassador John Weekes (Canada), 1990 Chairman of the Contracting Parties, and GATT Director-General Arthur Dunkel. (Photo by B. Stampfli)

Brazil renounces BOP cover on trade restrictions

At the Council meeting on 11 July, Brazil declared it had dispensed with trade restrictions maintained for balance-of-payments purposes. Many delegations hailed the decision by the largest country in South America as courageous, and said it confirmed the rising tide of trade liberalization in many developing countries.

Two subjects dominated the Council discussions on 11 July: the GATT dispute settlement system (sparked by a report from the Director-General) and a possible GATT role in environmental protection (the Chairman of the Contracting Parties reported on his consultations). The Council adopted a panel report which ruled against US countervailing duties on fresh, chilled and frozen pork from Canada. The United States asked for a panel to examine European Community’s restrictions on pork and beef imports under the EC Third-Country Meat Directive.

“A courageous decision” Brazil said despite continuing debt problems, it was disinvoking Article XVIII:B of the GATT to demonstrate its firm commitment to trade liberalization. Ambassador Rubens Ricupero said that the comprehensive trade liberal-

(Continued on page 8)
Council reviews trade regimes of Thailand and Chile

Two rapidly developing countries that have undertaken extensive trade reforms were the latest subject of reviews by the GATT Council. Under the Trade Policy Review Mechanism (TPRM), the Council held comprehensive discussions on the Secretariat and government reports on the trade regimes of Thailand (2-3 July) and Chile (4-5 July).

"The experience of the limits of an inward-looking approach towards trade and development policy, and the recognition of the potential of the world economy in providing markets, inputs, investment and technology, has led the Thai Government to engage in a major process of liberalizing the economy, including the foreign trade regime," according to the Secretariat's report.

According to the other Secretariat's report, "the Chilean experience suggests that rapid trade reforms, when combined with an appropriate mix and sequencing of stabilization policies, are a sustainable recipe for improving economic performance."

The TPRM, an early result of the Uruguay Round, was launched in December 1989 to enable a regular collective evaluation by the Council of the full range of trade policies of individual GATT members.

On each review, the GATT Secretariat presents a report covering all aspects of the country's trade policies, including domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; and the foreign exchange regime. The complete trade policy reviews of Thailand and Chile, including the Secretariat's and governments' reports together with a record of the Council's discussions will be published later this year, and will be available from the GATT Secretariat.

Since December 1989, reviews of the following countries have been completed: Australia, Canada, Colombia, the European Communities, Hong Kong, Hungary, Indonesia, Morocco, New Zealand, Sweden and the United States.

The following are the Council Chairman's summaries of the discussions on the trade regimes of Thailand and Chile.

THAILAND

Members of the Council welcomed the evolution which had taken place in Thailand's economy in the direction of more open policies and commended Thailand for its smooth transition from import substitution to greater integration into the international economy. Since the late 1970s, Thailand had pursued a range of positive policies, including fiscal and monetary discipline and a more flexible exchange rate regime. These policies, in combination with an improved external situation, had contributed to impressive growth and diversification in Thailand's economic structure, foreign trade and investment. The Council appreciated the important steps taken by Thailand to liberalize its trade and investment regimes on a most-favoured nation basis.

The impetus provided by these developments had helped Thailand transform its economy from one founded largely on basic agriculture to a more diversified structure with a major share of domestic output coming from manufacturing. The foreign investment attracted to Thailand had further strengthened Thailand's competitiveness and boosted economic growth.

It was pointed out that Thailand's liberalization and expansion of trade had been a positive contribution to the world trading system. At the same time the liberal international trading system had been highly beneficial to Thailand's promotion of exports. Even so, many members emphasized the need for Thailand's economic policy efforts to be supported by international trade liberalization, including in agriculture and textiles. The rapid growth in Thailand's international trade had increased its dependence on external markets and strengthened the emphasis given by Thailand, since its accession to the GATT in 1982, on a strong, open and equitable multilateral trading system. Members welcomed Thailand's active role in the Uruguay Round, including as a member of ASEAN and the Cairns Group, which stemmed from this development. It was recognized that a successful outcome to the Round would assist Thailand in pursuing its trade policy liberalization.

Concerns

While commending Thailand for the direction of its policy reforms, Council members indicated several areas where...
general or particular measures created uncertainty or lacked transparency:

- Thailand's trade policy laws and practices were marked by considerable degree of discretion. Particular mention was made of the import licensing regime, government procurement (including the use of the "national interest" criterion), and customs valuation;
- Concern was expressed about the use of multiple policies such as tariffs, import licensing and local content schemes to protect particular sectors;
- Lack of transparency in some policy areas was noted. In this context, some members observed that Thailand had been unable to provide certain information to the Secretariat in preparing its report;
- Infant industry protection had been in place for substantial periods of time in some cases;
- Tariffs remained high and disparate, with substantial escalation and tariff peaks for many product categories. The weighted average level of applied tariffs was higher than in 1982. Statutory tariffs were substantially higher than applied rates. Thailand had bound only about 3 per cent of its tariff lines. A significant share of tariff lines, especially for agriculture, bore alternate tariffs;
- The use of surcharges on imports, and provisions of tax and duty exemptions on goods which were in short supply in the domestic market, introduced uncertainty in the trade policy régime;
- There was apparent discrimination between imports and domestic products under the business tax régime;
- Most items covered by import licensing were subject to non-automatic, discretionary licensing. The number of items under licensing now as higher than in 1982;
- The replacement of non-tariff measures by variable levy-type surcharges was seen as continuing existing distortions;
- The scope and variety of incentives for exports could lead to subsidization, and hence risk the application of countervailing measures by other parties;
- The need to improve intellectual property protection was emphasized;
- Thailand had not signed any MTN Code. Members particularly encour-aged Thailand to adhere to the Customs Valuation and Import Licensing Agreements. In this regard, it was pointed out that Thailand need not wait till the end of the Uruguay Round to consider signing the Customs Valuation Code because the nature of the new Code had become reasonably clear.

Members welcomed Thailand's commitment to replace the business tax by a VAT system and expressed the hope that it would be applied in a transparent and non-discriminatory manner. The question was asked whether Thailand would seek an extension of its GATT waiver for the business tax.

The generally non-discriminatory nature of Thailand's tariff régime was recognized. Most members welcomed Thailand's offer to bind about 50 per cent of its tariff lines in the Uruguay Round. Some others felt that this offer was not fully satisfactory. Hope was expressed that future liberalization would be balanced and include all product categories.

Council members hope that Thailand's plans to rationalize and further reduce tariffs, lower other import and export restrictions, and to replace the business tax with a more transparent VAT system would be implemented in the near future; that the government would continue its policy of reduced reliance on import surcharges; and that the tariffication of non-tariff measures would be extended.

Members took note of the priority given by Thailand to domestic processing and decentralization of economic activity. One member, welcoming Thailand's liberalization, said that reductions in barriers to imports of raw materials, intermediates and capital goods were appropriate for a developing country where tariffs provided both protection for infant industries and substantial government revenues, and import licensing was to some extent unavoidable.

Policies concerning liberalization of foreign investment conditions were welcomed. Some members looked forward to greater predictability and further liberalization in this area.

Important trade policy objectives of Thailand focused on promotion of light industries, selected heavy industries and export-oriented industries. In this connection, Thailand had liberalized selectively resulting in higher protection for certain sectors. This could in the long run affect Thailand's competitiveness and efficiency. Clear indications of the timing and nature of liberalization were desirable.

More information was sought on a range of issues, including: the process of making specific decisions in various policy areas; plans for developing alternative revenue sources to tariffs; customs valuation procedures; the trade régime for agricultural products; the nature of, and prospects for liberalization of, local content schemes; details of rationalization of sectoral assistance policies, in particular through the import licensing régime; criteria used for replacing non-tariff measures with surcharges; procedures used in government procurement; the problems arising in Thailand's possible accession to the MTN Codes; how far environmental concerns had been incorporated in policy; Thailand's views on increasing economic cooperation with ASEAN; plans to widen the sources of foreign direct investment in Thailand; and steps taken to liberalize trade-related investment measures. One participant asked whether any research bodies had made studies showing how industrial protection could be reduced.

Thailand's reply

In reply to these comments and questions, the representative of Thailand recalled the statement by the Thai Prime Minister to the country's National Legislative Assembly, in April 1991, that the first priority of his government was to institute a system which was transparent, accountable, responsive and would minimize the discretionary power of bureaucrats. It was intended that the government become more and more a facilitator of trade and investment. Avenues were open to private sector and academic involvement in
trade policy formulation.

The present level of tariffs resulted from the need to overcome a shortfall in revenue following Thailand's tariff reforms of 1982. Tariff decisions were made by the inter-agency Tariff Commission, in consultation with the private sector. There were no discretionary elements in tariff decision-making. Thailand planned to reduce the number of tariff rates from 36 to six, ranging from 0 to 30 per cent in general. Thailand had offered, in the Uruguay Round, to increase the coverage of its tariff bindings from three per cent to about 50 per cent of tariff lines, including agriculture and manufacturing sectors. This had not been matched by offers from major trading partners. Similarly, Thailand's membership to the MTN Codes in the near future would depend on the progress made in the Uruguay Round.

Thailand was replacing quantitative restrictions by tariff-based measures. Only two items were subject to quotas at the end of 1990, and one had since been liberalized. The list of items subject to import licensing now covered only five per cent of Thailand's tariff lines. Import licensing required prior approval by the Cabinet. During the past five years, Thailand had introduced export licensing on seven products, either in response to measures taken by major trading partners, or for quality control reasons.

Tariff drawback and remission schemes for exports were aimed to neutralize the effects of import duties and business tax.

The value added tax, which would be introduced in early 1992, would be levied on all sales of goods and services. Business tax would be abolished. Compensatory changes would be made in the structure of excise taxes.

The Government of Thailand had substantially reduced the extent and coverage of promotional benefits offered by the Board of Investment. These would no longer be necessary after the introduction of VAT.

Thailand did not pursue discriminatory government procurement policies. Open bidding was practised. A ten per cent preference was, however, given to any product, from any source, which was registered by the Thai Industrial Institute for Standardization.

Competition law in Thailand was being revised to provide more adequate regulation of monopolies and restrictive business practices.

Regarding intellectual property rights, the representative of Thailand said that the law on patents, copyright and trademarks was under review with a view to extending adequate and extensive intellectual property protection in line with national policy objectives. An amendment to the trademarks law had already been submitted to Parliament with a view to protect well-known marks, service and certification marks.

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**Thailand in world trade**

In the early 1980s, high petroleum prices, rising international interest rates and global recession put strains on the balance of payments and slowed down economic expansion in Thailand. The Thai Government responded by imposing fiscal and monetary discipline, limiting public external borrowing, and giving greater emphasis to export performance through measures such as easier access to imported inputs and the switching from a fixed to a more flexible exchange rate regime.

Supported by a real effective devaluation of the Thai baht of an estimated 30 per cent between 1983 and 1988, an increasingly open business environment in Thailand and the recovery of the world economy, Thai exports picked up sharply after 1985. The ratio of Thai exports of goods and services to GDP increased from 39 1/2 per cent in 1990, up from 25 1/2 per cent in 1980. In the process, Thailand's production and export structure has become more diversified and resilient against adverse developments in world commodity markets.

Thailand’s economic growth recovered from a low point of 3 1/2 per cent in 1985 to reach double-digit rates during 1987 to 1990. The initiative in investment activity shifted from the public to the private sector, reflecting greater reliance on market forces. Expanding investment and consumption induced a rapid increase in imports, in particular imports of raw materials, machinery and other intermediate products. In 1990, Thailand accounted for 0.9 per cent of world merchandise imports and 0.7 per cent of world merchandise exports (rank 23rd among world importers and 31st among world exporters).

Thai imports have outpaced Thai exports in recent years. Coupled with a terms of trade loss after 1986, this resulted in an increase in the current account deficit from less than one per cent of the GDP in 1987 to 7 1/2 per cent in 1990. However, Thailand is now better placed to cope with trains in the current account than in the early 1980s. Tight fiscal policy has led to a budget surplus equivalent to 5% of GDP in 1990, providing financial flexibility to the Government. Foreign investment inflows have contributed to a substantial balance of payments surplus in recent years. While long-term external debt increased to an estimated US$16 billion in 1990, the ratio of long-term debt service payments to exports has declined from a peak of 22 per cent in 1985 to 10 per cent in 1990. In December 1990, foreign exchange reserves were equivalent to over five months of imports.

The improvement in Thailand’s international competitiveness in the second half of the 1980s has reinforced the incentives provided by the Government to attract foreign investment. Net private foreign investment in Thailand has risen more than ten-fold since 1987. Investment inflows from abroad have contributed to the dynamism of Thailand’s trade. Much of the foreign investment has been export-oriented, including processing and assembly projects.

Increasing linkages with the world economy have been accompanied by a major change in the product mix and regional pattern of Thailand’s trade. At present, manufactures account for about two-thirds of Thailand’s merchandise exports, up from slightly over one-third in 1980s. During the same period, the share of manufactures increased from about one half to three-quarters of total imports of merchandise.

While Thailand’s export base is still relatively narrow, export diversification has progressed in recent years, including diversification into fisheries products, clothing items, leather manufactures, toys, jewellery and certain machinery. Import duties continue to reflect Thailand’s heavy reliance on imported inputs, and the protection provided to domestic producers of many finished products, particularly consumer goods. Within a decade, the share of raw materials, intermediate products and capital goods in total imports of merchandise increased by about 25 percentage points to reach approximately 75% in 1990.

With a share of about 20% in 1990, the US has become Thailand’s top export market, up from third place behind the EC and Japan in 1980. As for Thai merchandise imports, Japan, the traditional number one supplier, increased its market share to almost one-third, a gain of 10 percentage points during the 1980s. The EC has remained the second largest import source, with an estimated share of 15% of Thai merchandise imports in 1990. Trade with developing countries has remained relatively small.
Thailand’s sectoral trade policy was a residue of its earlier import substitution policies. Reform had been underway since the mid-1970s on a step-by-step basis to avoid disruption in the development process. In relation to infant industry policies, Thailand was aware of the problems arising from overprotection and was therefore proceeding with a fairer and more open competitive system. The investment regime was open to foreign and domestic investors alike. Local content requirements had been used to help promote the establishment of domestic manufacturing and had contributed substantially to the development of Thailand’s industry. These requirements were in the process of being rationalized, including in the automobile sector. Protection for the textile and clothing industries was based on tariffs, and was in part a response to the distortions existing in world markets.

Thailand supported vigorously environmental concerns but insisted that measures in this area should not be used to create new trade barriers or harassment. All countries should have an opportunity to contribute to efforts being made in this field.

The representative of Thailand remarked that, while Thailand did not support dumping as a practice, Thai exports had been increasingly subject to trade harassment, including the threat of unilateral action. Regarding agricultural exports, he noted that unfair competition from subsidies by developed countries had led to severe distortion and economic loss. Impediments to Thailand’s exports made it difficult for it to implement policy reform. Thus the outcome of the Uruguay Round was of great importance to Thailand.

Conclusions

In conclusion, the Council commended Thailand for its policy reforms and noted the benefits thus accruing to Thailand and its trading partners. Thailand’s future economic progress would depend on further liberalization and reduction in distortions in the domestic economy. The Council recognized that such reform would be considerably assisted by a supportive external trading environment, including a positive outcome of the Uruguay Round.

CHILE

All Council members commended Chile for its open trade policy orientation and its adherence to the fundamental principles of the GATT. Chile was a relatively small, market-oriented trade-dependent economy, which had achieved an impressive degree of trade liberalization. Liberal trade and foreign investment policies had fostered Chile’s economic development. Chile’s trade and foreign exchange policies had helped reduce the country’s long-standing export dependence on one commodity, copper. Chile’s economic expansion, on the basis of such policies, had brought it external debt to manageable levels. Many participants said that Chile could be considered as a model of a country where rapid trade reforms, when combined with an appropriate mix and sequencing of other economic policies, resulted in a marked improvement in performance. Members sought further information on Chile’s experience with trade liberalization.

The Council welcomed the firm legal basis established for Chile’s trade policies and the lack of bureaucratic discretion. A uniform tariff helped reduce distortions and ensure non-discriminatory treatment among productive sectors. Chile’s binding of its entire tariff schedule had also reduced uncertainty for exporters to Chile. The transparency of Chile’s trade regime was reinforced by the almost exclusive use of ad valorem tariffs and the prohibition, by law, of quantitative import restrictions and voluntary restraints. It was noted that tariffs had been reduced in the past few years. The recent reduction from 15 to 11 per cent was welcomed.

Non-traditional exports of manufactures and, in particular, of agricultural products from Chile had grown rapidly. Some members stressed that Chile’s generally open trade policies were not, however, matched by improvements in access to other markets for these products. Such improvements, especially within the Uruguay Round negotiations, would encourage Chile to continue its open trade orientation.

Chile’s firm commitment to the multilateral trading system and its active participation in the Uruguay Round, including as a member of the Cairns Group, was welcomed.

Some questions

While commending Chile for the general direction of its trade policies and practices, Council members posed questions regarding several areas of policy. They included:

- Chile was asked whether there were plans to reduce tariff levels further.
- There was a substantial, and now larger, gap between applied and bound tariff levels. This increased the degrees of uncertainty for exporters to Chile, particularly in the context of long-term contractual obligations.

The question was asked whether
Chile would consider reducing the bound levels of duty to increase predictability.

- Variable composite tariffs underpinning domestic price bands for certain agricultural products, had led to ad valorem duty equivalents in some cases substantially above bound levels. Clarification was sought on the functioning of and the rationale for this system, in the light of Chile’s general policy of transparent ad valorem tariffs;

- Questions were asked regarding the use of minimum customs values and tariff surtaxes to provide temporary import relief, or to correct for what the Chilean authorities considered international price distortions stemming from unfair practices by trading partners. Members asked whether these measures were intended to be a basis for anti-dumping and countervailing actions and sought information on the reasons for the decline in the number of countervailing investigations since the mid-1980s;

- In this connection, noting that Chile was a signatory to three MTN Codes, members asked whether Chile was considering joining other Codes, in particular the Anti-Dumping and Customs Valuation Agreements;

- Questions were asked concerning Chile’s new bilateral trading arrangements with the United States and with Latin American countries. Concerns were expressed about the possible trade-diverting effects of these agreements;

- Reference was made to the restrictive nature of Chile’s health and sanitary regulations. Questions were asked regarding the criteria underlying these measures;

- Attention was drawn to the continued import prohibition on used cars. A question was also asked regarding the contribution made to the development of the Chilean automobile industry by local content requirements;

- The economic and trade effects of the few, but important, State-owned enterprises were queried;

- The incidence of continuing export controls on copper was highlighted;

- Reference was made to the possibility of a discriminatory subsidy element in the simplified duty drawback scheme. Information was also sought on the system of production assis-

tance for afforestation, and the extent to which this constituted a subsidy;

- Questions were asked concerning the social costs of liberalization programme and measures taken to relieve poverty.

One delegation sought more information on the new economic package adopted by Chile in mid-June 1991.

Chile’s reply

In replying to the questions and comments made, the representative of Chile said that Chile’s experience with trade
liberalization had not been universally successful. The costs of reform were generally felt in the short term, while the benefits were experienced in the longer run. Macro-economic equilibrium and prudent management of external debt had been essential supports for trade liberalization. There was a high degree of consensus in Chile in favour of the liberalization process; the most recent tariff reduction had been accepted unanimously by Congress.

Up to now, Chile had concentrated its export efforts in areas based on natural resources in which it had a comparative advantage. Nevertheless, further diversification into exports of manufactures and services was being sought.

The uniform tariff could only be modified by Congress. Uniformity reduced the dispersion in incidence of duties among products and sectors, as well as countering the negative welfare effects of high tariff protection, and was very simple to administer. Chile was firmly committed to the uniform tariff, supported by a legal ban on other forms of restrictions. The gap between applied and bound rates gave Chile the necessary flexibility to take action in the event of economic crises. However, the increase in rates which had been made at a time of economic difficulties was executed on a uniform basis. Chile had offered to reduce its bound rates in the Uruguay Round negotiations. Further reductions depend on other participants including developing countries. Chile's efficient tax collection system allowed it to use measures other than tariffs for structural purposes.

Bilateral and regional trade agreements were, in Chile's view, compatible with the multilateral trading system. Chile's aim in concluding such agreements was to strengthen links with main trading partners, not to exclude others. Chile would support any such agreements covering all trade and providing for national treatment to foreign investors. Contracts with foreign investors were protected by law. Improvements in the system were, however, still being negotiated with some trading partners.

Price bands for agricultural products were established by Chile in the 1980s to minimize the domestic effects of international price fluctuations caused by export subsidization and not as a variable levy system. The mechanism was automatic. Ad valorem equivalents of the specific duties levied were considerably lower than those shown in the Secretariat report. The 35 per cent binding level was applicable as a maximum to import of products subject to price bands. Chile's self-sufficiency in wheat and general recovery in agricultural products was not solely the result of the price band mechanism but a result of favourable changes in real exchange rates.

Tariff surcharges and minimum customs values were also intended to correct for the effects of international price distortions on domestic production. The Executive had the power to raise duties up to the bound level of 35 per cent in case of injury or distortion of competition. This level could not be exceeded. Procedures followed by the Import Distortions Investigation Commission were public, with clear transparent administrative rules including the possibility of appeal at all levels. There were very few cases of application of minimum customs values or surcharges.

Chile would be considering its position vis-à-vis the GATT Codes at the end of the Uruguay Round.

The "simplified drawback" scheme was not intended to subsidize exports, but merely to create a simpler system by which small exporters could benefit from duty drawback.

Government involvement in voluntary export restraints was prohibited by law; however, the government could not affect the conduct of private business in this regard.

The importation of cars, apart from used cars, was completely free from restrictions.

The Copper Stabilization Fund provided for resources to be kept in foreign currency when receipts are greater than target prices. This was purely a reserve measure. Chile did not affect international prices for copper in this respect, nor create distortions in international trade. The role of the Chilean Copper Commission had been somewhat misunderstood. It was not fully State-owned; government influence in the Commission was reduced by the participation of private enterprises.

The Chilean Congress had almost concluded a new fisheries law containing specific provision in preservation of fishery stocks. Chile had the highest reforestation rate in the world. New wood processing plants were subject to strict pollution requirements. Forestry plantation was now the only sector benefiting from financial assistance. This was because of the large importance of the sector and the long-term investment involved. The subsidy element was very low, around US$5 million a year.

Social development was an important element in promoting domestic consensus. Recent tax reforms were intended to contribute to this objective.

The new economic package contained tariff reductions from 15 to 11 per cent; a rise in short-term interest rates; and an increase in certain selected

A cellulose plant in Southern Chile: broadening the export base. (J. Maillard/ILO)
taxes, for example, on petroleum.

Chile applied sanitary and phytosanitary measures with the unique objective of protecting the health and sanitary conditions in the country. Chile was a phytosanitary “island”, free of certain diseases, such as foot and mouth disease or fruit fly. Quarantine requirements were aimed at safeguarding this status. Voluntary quality controls on fruit were administered by the private sector to ensure the homogeneity of the products.

Chile maintained no import restrictions on textiles. The opening of its market had led to a major readjustment in the sector. Now, Chile was exporting over US$100 million of textiles and clothing per year. The open nature of Chile’s market was contrasted with restrictions to its exports in other markets.

Chile was heavily dependent on international trade for its economic growth. For a developing country with a very open economy, such as Chile, developments in the international trading system were fundamental. Chile firmly supported the Uruguay Round multilateral trade negotiations. In this context, Chile expected to obtain effective concessions particularly in agricultural and natural resource-based products and textiles. Chile was, for its part, prepared to reduce its present bound rate.

Conclusions

In conclusion, the Council observed that Chile’s trade policies were substantially in keeping with the overall principles of the General Agreement. It commended the clarity, stability, non-discriminatory nature and uniformity of Chile’s tariff system, while expressing the hope that further reductions in bound rates could be made. The Council recognized that, although there were still some areas of concern, Chile’s free trade policies, combined with stable macro-economic policies, had generated substantial economic benefits, domestically and for Chile’s trading partners. The Council noted that Chile’s open trade policies would be greatly assisted by improvements in the external trading environment confronting Chile, particularly in the area of agriculture. The outcome of the Uruguay Round was important for Chile’s future trade and prosperity.

COUNCIL (Continued from page 1)

alization programme launched when President Fernando Collor de Mello took office about a year ago included the elimination of import controls and the progressive reduction of average tariffs from 32 per cent to 25 per cent this year, and eventually to 14 per cent in 1994. He said Brazil would remove residual import restrictions in the computer sector by October 1992.

Brazil emphasized that Article XVIII:B should remain as an important instrument for the protection of balance of payments, and that this Article should be invoked when needed and disinvoked when circumstances allowed it. (GATT Article XVIII:B allows developing countries experiencing balance-of-payments difficulties to impose temporary import restrictions, which then become the subject of consultations with the Contracting Parties in the Committee on Balance-of-Payments Restrictions.)

Many delegations welcomed Brazil’s announcement. The United States praised Brazil’s “dramatic and forceful steps” to reform its economy, and said this was a reminder to all countries that economic development cannot be achieved in economic isolation. It emphasized that Brazil, and many other countries were adversely affected by the lack of progress in the Uruguay Round. It added that the steps taken by Brazil could only occur against a background of substantial liberalization of the world economy.

The European Community said that the country’s courageous measures was very much in line with the international trend. Sweden, speaking on behalf of the Nordic countries, described the announcement as a “historic decision”, and one step towards the ultimate GATT goal of all members being subject to the same trade rules. Japan noted that despite debt problems, Brazil had been able to give a major contribution to a more liberal trading system.

Increase in dispute-settlement activity

In presenting his regular report on GATT dispute-settlement, Director-General Arthur Dunkel said there had been a marked increase in dispute-settlement activity: five panels had been established in the past six months as compared with only one in 1990. In general, the GATT dispute-settlement work had been satisfactory but he made the following observations:

- Eight different dispute-settlement mechanisms existed under the General Agreement and the Tokyo Round. The fact that a panel could examine the matter before it only in the light of the agreement under which it was established but not other agreements have lead to time-consuming debates on what should be the proper forum for certain trade disputes. It had also led to allegations of “forum shopping” in the disputes settlement area.

- The increasing number of instances in which the implementation of adopted panel reports was made conditional on the conclusion of the Uruguay Round ran contrary to the purpose of GATT dispute-settlement, namely to uphold existing legal obligations.

- Two panel reports remained unadopted despite the withdrawal of the measures in question, and two panels established a long time ago have not been activated because the complaining party had not pursued the matter. He suggested that cases which had not been pursued within a year be considered withdrawn.

- Some requests for consultations or the establishment of panels had failed to identify precisely the matter of the dispute and the legal basis for the complaint. Such incomplete requests impaired the rights of third parties to decide whether to be co-complainants or make submissions to panels.

Council Chairman Lars Anell reported on his informal consultations with the four leading traders - the United States, the EC, Japan and Canada - regarding linking of the implementation of adopted panel reports to the outcome of the Uruguay Round (see previous Focus). He said that while these countries had accepted that they were legally in contravention of GATT provisions, they had claimed it would be politically impossible to implement something which might be modified at the completion of the Round. Ambassador Anell said continued inaction by
These countries on this matter would set a dangerous precedent.

Argentina expressed deep concern that the GATT members which have not implemented adopted reports accounted for 72 per cent of world trade. "How can we ensure the credibility of new rules (at the completion of the Uruguay Round) if we cannot enforce the old ones?" it asked. It proposed that the Council hold an in-depth debate on the issue.

Switzerland said the problem was a by-product of the delay in the completion of the Round. It stressed that the credibility of GATT was at stake. New Zealand and Thailand said the leading traders should set a good example in the GATT. The European Community said it would be difficult to find easy solutions to the problem of nonimplementation because each panel case had its own dynamics.

Several delegations took the opportunity to raise specific complaints:

- In highlighting problems in the Tokyo Round Code Committees, Sweden urged the United States to agree to the adoption of a panel report concerning US anti-dumping duties on Swedish stainless steel pipes. The United States said that it was not blocking the adoption of the report but was urging a change in the panel recommendations from specific to a general remedy.

- Japan urged the United States and the EC to implement, respectively, panel reports on US Section 337 (treatment of cases concerning patent infringement by foreign companies) and the so-called "screwdriver" report. It complained that an investigation was taking place under Section 337, which had been ruled GATT-illegal.

- Australia said it still had questions about the implementation of the panel reports on the Korean beef regime and the US sugar quota system, and requested the Director-General to include these cases in his report.

The Council agreed to come back to the question of non-implementation of panel reports at its next meeting.

Pork panel report adopted

Canada again urged the United States to agree to the adoption of a panel report that ruled against US countervailing duties on fresh, chilled and frozen pork from Canada. This report was first considered by the Council in October 1990 (see Focus No. 75).

The United States replied that the case had been rendered moot by its recent termination of countervailing duty proceedings on Canadian pork after a Canada-US Free Trade Agreement body had found that imports of Canadian pork had not caused injury to US industry. It said all cash duties of estimated duties collected would be refunded automatically to importers, with interest. Despite continuing reservations about the panel's findings, the United States said it would not stand in the way of the report's adoption.

Canada welcomed the US decision and said the recommendations of the panel would benefit all GATT members. The Council adopted the panel report.

US asks for a panel on EC meat restrictions

The United States requested the establishment of a panel to examine European Community's import prohibition on certain types of US meat. It charged that the EC Third Country Meat Directive, the basis of the Community's restrictions on imports of pork and beef, contravened GATT provisions, including Articles I (most-favoured-nation), III (national treatment) and XI (general prohibition of quantitative restrictions).

The United States noted that a panel was established on the EC Directive in 1987 but never activated because of a temporary agreement with the EC allowing entry of US meat. It said that as its present complaint was more comprehensive, the earlier panel should be dissolved once a new panel was established.

The Community said it would study the US request, and would be prepared to discuss the matter at the next Council meeting.

The EC measure (Directive 72/462/EEC) established meat-handling standards, including those on slaughterhouse practices, for imported meat. A dispute settlement panel was established to examine it at the Forty-Third Session of the Contracting Parties in December 1987.

Other trade disputes

The GATT dispute-settlement system encourages members, before asking for panels, to first try to reach mutually-satisfactory solutions to disputes through bilateral or plurilateral consultations. At the July meeting, the Council took note of a number of disputes that were, or would soon be, under this consultation process:

- The United States, Australia, Thailand, New Zealand and Uruguay expressed disappointment over what they said was lack of progress in plurilateral consultations with Japan on its restrictions on imports of starch and dairy products. They stressed that Japan comply with an adopted panel report concerning these products. Japan maintained it had implemented a majority of the panel's recommendations, and had taken steps to improve access of starch and dairy products. It suggested further consultations on the matter.

- Australia, the United States, New Zealand, Canada and the European Community expressed concern that Korea's trade liberalization programme, announced at the April Council meeting, did not completely fulfill commitments it had made when it disinvoked GATT Article XVIII balance-of-payments cover last year. They reported lack of progress in plurilateral consultations. Korea emphasized the sensitivity of its farm sector and said consultations would continue.

- The United States reported that it had consulted with Norway in May over continued restrictions on imports of apples and pears despite a panel ruling against them. It reserved its GATT rights on this matter. Norway maintained its new import regime on apples and pears was consistent with its GATT obligations, including GATT Article XI:2(c).

- Costa Rica expressed concern that an impending EC import regime for bananas would discriminate against Central American countries. It urged agreement in the Uruguay Round for free trade in bananas. Columbia, Honduras, Peru, Venezuela and Mexico shared Costa Rica's concern. The United States said Costa Rica's complaint demonstrated broad interest in trade liberalization for agricultural
products in the Uruguay Round. The EC took note of Costa Rica's concern.

- Norway reported it had been consulting with the United States regarding US anti-dumping and countervailing duties on fresh and chilled Atlantic salmon. It said these consultations were taking place under the dispute settlement provisions of the General Agreement, the Subsidies Code and the Anti-Dumping Practices Code.

- The Philippines complained that new standards adopted by the European Community and Canada had restricted imports of Philippine carrageena (also known as Irish moss, a seaweed product used in food processing). It said that by imposing a standard of two-percent non-soluble acid content on carrageena products, the EC and Canada have effectively limited the use of Philippine carrageena to pet foods. The Philippines argued that the new standards were not based on sound scientific grounds. It said that 300,000 Filipino fishermen would be affected by the new EC and Canadian standards. The Community and Canada said they were prepared to hold consultations with the Philippines on this matter.

- Peru welcomed the EC lifting of cholera-related restrictions on its products, in particular on mangoes and asparagus. However, it complained that Austria had reconfirmed its ban on Peruvian foodstuffs in June. Austria said that import restrictions covered only a minor part of its trade with Peru and that it was prepared to hold consultations on this issue.

Environment and trade

The Council came back to the issue of what should be the GATT role in environmental protection after a comprehensive discussion of the subject at the previous meeting. The Chairman of the Contracting Parties, Ambassador Ricupero, reported that his consultations indicated a general acceptance that GATT was affected by environmental issues related to trade, and that it would be useful to hold a second round of substantive Council debate in October based on written contributions. However, he said there was still no agreement on an initiative by GATT members belonging to EFTA for the convening of a Working Group on Environmental Measures and International Trade established in 1971.

Austria, speaking on behalf of EFTA members, reiterated its stand that the 1971 Group be convened in the second half of September 1991. It suggested issues that the Working Group could consider, including how to ensure multilateral transparency of environmental measures related to trade and how other international agreements fit in the GATT framework. Austria stressed that the work programme should be rule-oriented and analytical, and should not be likened to a dispute-settlement process. It said the EFTA members were open to discussions on modifying the membership and the mandate of the Group.

A number of Council members supported the convening of the Working Group, including the United States, the European Community, the Nordic countries, Australia and New Zealand.

Malaysia, speaking on behalf of the ASEAN members, stressed that the Council should not be rushed into convening the Group, and that consultations should continue. On this point, the Council Chairman noted that no one had asked the Council to take a decision on the convening of the Group. India and Chile also supported further consultations on the subject.

The Council agreed to revert to this matter at the next meeting (8-9 October) and that in the meantime, its Chairman would consult with the Chairman of the Contracting Parties on how best to proceed on this issue.

**Working Group’s mandate extended**

The Council considered a report by the Chairman of the Working Group on Domestically Prohibited Goods and Other Hazardous Substances. The report explained that though the text of the Decision was generally acceptable to almost all members of the Group, it had not been possible for it to meet the 30 June 1991 deadline as the proposals for modifications in the provisions on product coverage and dispute settlement made by one delegation were not acceptable to others. It indicated that the Group nonetheless considered that there was an urgent need for the establishment of a GATT notification system for domestically-prohibited goods.

The Council agreed to extend the mandate of the Group by a period of three months to enable it to complete its work.
Decisive phase
(Continued from page 1)

In areas where a common negotiating text was not yet available, like in TRIMs (Trade-Related Investment Measures) and anti-dumping, "once the essential political decisions are taken ... agreements will fall into place fairly quickly".

Mr. Dunkel told the TNC that "the deeper the negotiating groups have gone into specifics, the more it is re cognized that technical and political questions are the sides of the same coin and therefore have to be tackled more and more in an integrated way at every stage of the concluding phase of the Round." He stressed that each participant "will have to assume full responsibility in the effort to build consensus at every step of the Geneva negotiating process."

Strategy: Full role for TNC

The TNC Chairman proposed, and the participants agreed, on a "hands-on" approach by the TNC to the negotiations. The TNC would be assuming fully its role of "keeping the negotiating process constantly under review and supervision," and thus would be on call for formal or informal meetings and consultations. Mr. Dunkel reserved the right to bring, at any time, to the attention of the TNC "any matter which threatens progress as a whole".

Mr. Dunkel, in putting forward a tentative schedule of meetings after the summer break (see Agenda, page 12), envisaged accelerated work from September, and "an enormous negotiating effort" in October and November which would be the "deal-making stage" of the Round. The formal meetings, he said, would only be the "tip of the iceberg." He expected "intensive informal, bilateral and plurilateral negotiating sessions" leading up to formal meetings of the groups to take note of these results and move the negotiations along.

In concrete terms, the draft agreements contained in the document presented to Ministers in Brussels would be constantly updated and revised to incorporate ongoing progress in the negotiations.

Developing countries: "We have walked the extra mile"

In the only other statement made at the meeting, Ambassador Rubens Ricupero of Brazil, speaking on behalf of the developing countries said: "We have already given more than we had to offer, we have already walked the extra mile ... the developing countries are now in the pole position of the movement toward trade liberalization."

He welcomed the statement made by the Group of Seven at the London Economic Summit on 17 July that the Uruguay Round is the first priority of the world economy, "We believe they mean what they say and that they stand ready to bridge the gap between the statements and the negotiations (and) we expect them to give new instructions to their negotiators," he said.

Political courage is required to conclude the Round, says Arthur Dunkel in new report

Political leaders everywhere have come to accept that the Round is something too big and too important to see lost. There is a sense of political responsibility which stretches from the poorest to the richest countries suggesting, finally, a willingness to table concessions, modify objectives and make deals in a manner which will bring us to a final Uruguay Round package. However, it remains to be seen if, this time round, political rhetoric is to be complemented by political courage.

This is stated by Arthur Dunkel, Director-General of GATT, in his introduction to GATT Activities 1990 published on 19 August (available from the GATT Secretariat and authorized booksellers). "There is no doubt that we have a window of opportunity to conclude the negotiations this year", he adds.

Mr. Dunkel points out that many developing countries, as well as those in Eastern and Central Europe, have taken unilateral measures to liberalize their trade policies. "Even the largest traders have made some contribution to this process, much of which has been undertaken in anticipation of a final successful conclusion of the Uruguay Round." Mr. Dunkel also highlights the large number of accession negotiations leading to very substantial trade policy reform commitments by new members.

"The GATT system offers a framework of support for integration into the world economy and, at the same time, a source of positive outside pressure to achieve much needed domestic reform."

The failure to conclude the Round had injected uncertainty and insecurity in GATT's framework for international trade, according to Mr. Dunkel. "For instance, while the disputes settlement system has continued to be called upon frequently as a means of resolving bilateral trade disputes, the recent record of implementation and, in some cases, adoption of panel reports has been a source of great concern", he says. Major traders felt unable to adhere to panel findings, which were based on existing GATT rules, until the conclusion of the Round. "In the eyes of some contracting parties, it has given the impression that there is one law for the most powerful members of GATT and quite another for all the rest."

Mr. Dunkel also draws attention in his introduction to the question of the mutual impact of trade and environmental policies: "Many trade disputes are already surfacing which owe their existence to differences between trade and environment objectives ... We are faced with the need to consider the extent to which the General Agreement, as it is now, can adequately cover the requirements of governments to pursue environmental objectives using policies which sometimes may affect trade but which do not degenerate into protectionism by another name. One thing is clear, however, that the world's capacity to deal technically and financially with environmental challenges can only be helped by the reforms and potential for growth and development offered by a successful conclusion of the Uruguay Round."

GATT Activities 1990 reports on every aspect of GATT's work during 1990 and in the early part of 1991.
MFA extended for 17 months

The Textiles Committee decided, on 31 July, to maintain in force the Multifibre Arrangement (MFA), as extended by the 1986 Protocol, for a further period of 17 months from 1 August 1991 to 31 December 1992 in the expectation that the Uruguay Round results would come into force immediately thereafter.

This is the fourth extension of the MFA, which has been governing most of the world's trade in textiles and clothing since 1974. In taking the decision, the Textiles Committee took into consideration negotiations, which are at an advanced stage, in the Uruguay Round aimed at integrating this sector into the GATT. The participants reaffirmed their commitment to the standstill and rollback provisions of the Punta del Este Declaration and their undertaking at the Mid-Term Review of the Uruguay Round to endeavour to improve the situation paving the way for the integration of the textiles and clothing sector into GATT.

Exports from the 41 members of the MFA (the European Communities counting as one) amount to about US$2-billion, or two-thirds of world trade in textiles and clothing. Signatories to the MFA are: Argentina, Austria, Bangladesh, Brazil, Canada, China, Colombia, Costa Rica, Czechoslovakia, Dominican Republic, EC, Egypt, El Salvador, Fiji, Finland, Guatemala, Hong Kong, Hungary, India, Indonesia, Jamaica, Japan, Korea, Macau, Malaysia, Mexico, Norway, Pakistan, Peru, Philippines, Poland, Romania, Singapore, Sri Lanka, Sweden, Switzerland, Thailand, Turkey, United States, Uruguay and Yugoslavia.

The MFA, under which industrial countries negotiate quotas on imports of textiles and clothing from developing countries, went into effect on 1 January 1974. MFA's safeguard procedures permit the introduction of restraints on textile imports, when these imports are causing market disruption, subject to a number of strict conditions and to multilateral surveillance.

Overall management of the MFA is undertaken by the Textiles Committee, which is made up of representatives of countries participating in the Arrangement, and to multilateral surveillance.

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Panel to examine US procurement of a sonar-mapping system

The Committee on Government Procurement, on 12 July, established a panel to examine a complaint lodged by the European Community against the United States' procurement of a multi-beam sonar mapping system for use in the Antarctic.

In asking for a panel, the EC charged that the procurement of the system on behalf of the US National Science Foundation for use in an ice-breaking vessel was inconsistent with the provisions of the Agreement on Government Procurement. It stressed that the case was pressing since the closing date for receiving bids for the procurement tender was 29 July 1991. The EC said bilateral consultations had not resolved this dispute.

The United States maintained that the procurement in question was part of a subcontract of a services contract and as such was not covered by the Code. It nonetheless agreed to the establishment of the panel.

The Government Procurement Code, established at the conclusion of the Tokyo Round negotiations, aims to secure greater international competition in the government procurement market. It has a dozen signatories (the Community counting as one).