Uruguay Round link hampers settlement of disputes

Continued linking of the implementation of panel reports with the conclusion of the Uruguay Round has been hampering the resolution of trade disputes in the GATT, Director-General Arthur Dunkel reported to the Council on 14 July. Problems in dispute settlement, according to some delegations, threatened the credibility of the multilateral trading system and served to emphasise the need for a swift conclusion to the Round.

In his twice-yearly report on status of work in panels, Mr. Dunkel said that the implementation of seven adopted panel reports had been followed up during the past six months at the Council meetings. The situation whereby the implementation of some reports were made conditional on the completion of the Round was “regrettable”, he said. The Director-General pointed out that these panel reports interpreted existing GATT rights and obligations and should therefore be implemented regardless of the results of the Uruguay Round. “The acceptance of new obligations (in the Uruguay Round) is not made easier if existing rights are not seen to be effectively protected,” he said.

The Director-General reported a continuous rise in dispute settlement activity in the Tokyo Round Committees. Of the six new panels established in the past six months, three had been established under the Anti-Dumping Code, two under the Subsidies Code, and one by the Council (the Council established at the meeting another panel, see below).

Mr. Dunkel’s report sparked a debate on the situation in GATT dispute settlement in general. Delegations also sought to follow up panel reports that they believed had not, or only partially, been implemented.

Australia warned that the Council’s role could be “marginalised” should the situation persist. It called for strict adherence to the new dispute-settlement provisions adopted at the Mid-Term Review of the Uruguay Round in Montreal, particularly the procedures for close monitoring of the implementation of panel reports.

The Nordic countries said the growing concentration of disputes in the Anti-Dumping and Subsidies Committees was placing a heavy burden on parts of the GATT Secretariat. “This may only be a first indication of the kind of work GATT will be preoccupied with in the future if the Uruguay Round is not concluded soon,” they said.

Argentina and Tanzania, among others, said an early conclusion of the Uruguay Round would resolve these and other outstanding trade problems. Hong Kong noted that problems that have been cited were directly addressed in the provisions of an integrated dispute settlement system contained in the Draft Final Act of the Uruguay Round.

Some delegations who had linked implementation of reports to the conclusion of the Round sought to clarify the situation. The European Community said members should also recognize that legislators were confronted with the problem, when modifying a measure to comply with panel recommendations, of being “in the dark,” possibly having to change the legislation again to conform with the Uruguay Round outcome. The United States said it had implemented three out of five recent panel reports in-

(Continued on page 2)
Council
(Continued from page 1)
volving US measures. However, the vast majority of reports where it was the complainant had not been implemented.

US seeks authority to retaliate against Canada
The United States requested authorization from the Council to retaliate against what it claimed was $80.7 million worth of trade damages caused by Canada's continued discrimination against imports of US beer. It charged that the Canadian provinces of Ontario and Quebec, which made up half of the Canadian beer market, have continued practices found inconsistent by a GATT panel (see Focus No. 88). Furthermore, Ontario had raised the level of discrimination against US beer by establishing a new pricing system that included a handling charge for imported beer, and by imposing an environmental tax on canned beer.

Canada termed the United States' request unwarranted. It maintained that its provinces had taken significant steps to comply with the panel recommendations. It added that the province of Ontario, in establishing the new measures, had gone to great lengths to meet United States' concerns. There was no basis for the Council to authorise retaliation because the United States had failed to give advance notice of its request. Canada said it was prepared to agree to an expedited review of the measures cited by the United States under the dispute-settlement procedures contained in the Draft Final Act of the Uruguay Round.

The United States said it could not agree that this case be dealt with through another panel report, noting that the panel report on US beer was the second GATT report on practices by Canada's provincial liquor boards. It described Ontario's measures as intolerable and stressed that it would continue to seriously pursue this case.

Panel established on US secondary tuna embargo
The European Community reiterated a request made at the previous Council meeting for the establishment of a panel to examine the United States' secondary embargo on the import of certain tuna products from the EC. It noted that the law used as basis of the embargoes had been found GATT-inconsistent in a panel report ("Mexico/United States: US restrictions on imports of tuna", see Focus No. 86). However, this report had not been adopted yet despite a number of discussions on the issue in the previous Council meetings. It said that while pursuing its case in the panel, it would keep a close watch on a proposed legislation in the US Congress, which could lead to the lifting of the embargo.

The Netherlands, speaking on behalf of the Netherlands Antilles, said it had held consultations with the United States on the embargo on imports of tuna from the Netherlands Antilles but had not found a solution. It complained that the embargo was imposed despite the fact that the Netherlands Antilles' fishing fleets operate in the Caribbean using the long-line fishing method, which did not pose any threat to dolphins. It requested that it be associated as a co-complainant in the EC's request.

El Salvador complained that it had recently been included in the list of countries subject to the US secondary embargo notwithstanding the fact that it had no tuna fishing fleet, and that it did not import yellowfin tuna from the countries subject to the primary embargo.

The United States stressed that the embargo resulted from a Federal Court decision and that the US Administration had no discretion on the matter. It had been trying to modify the basis of this court decision - the 1982 Marine Mammal Protection Act - in order to lift the embargoes.

GATT grants observer status to six countries
Rapid integration into the multilateral trading system seems to have become a major priority of the Eastern and Central European countries and the new republics of the former Soviet Union. Six of these countries gained observer status in the GATT in June and July, as a preliminary step towards an eventual application for membership.

Albania, Estonia, Moldova and Turkmenistan were granted observer status by the Council on 19 June. Armenia and the Ukraine became observers on 14 July.

At the July Council meeting, Slovenia said that since it became an independent state, it had implemented a comprehensive economic and trade liberalization programme. This included a drastic cut in the number of products subject to quotas.

A number of delegations welcomed Slovenia's application. The United States, the EC, the Nordic countries, Switzerland and Austria added that they would support a rapid and expeditious process in a working party.

The Council established a working party to examine the application of Slovenia to the GATT. In the meantime, Slovenia was granted observer status to meetings of the Council and the Tokyo Round Committees.

At the June Council meeting, the European Community noted that there would be a review of the whole issue of the status and their rights and obligations at the end of 1992. The Community said the period of observership should be time-limited and not open-ended, and that it was meant to be an educational process on both sides. Observership, it said, would allow non-members to understand fully the GATT mechanism, and contracting parties to learn about the trade regimes of the observer countries concerned, through periodic reports and reviews.

Participants to the nine-week Second Special Trade Policy course with members of the GATT Secretariat. The course, financed by the Swiss Government and which began 25 May, aims to familiarise Eastern and Central European trade officials with the GATT. (T. Tang/GATT)
through new legislation that was moving rapidly in the US Congress. Despite its expectation that a solution to the dispute was at hand, the United States said it would not oppose the EC request for a panel out of respect for the new dispute-settlement procedures. On El Salvador’s complaint, the United States said that the country had been deleted from the list of countries subject to the embargo.

The Council established a panel to examine the complaints by the EC and the Netherlands on behalf of the Netherlands Antilles. Many Council members expressed their interest to make a third-party submission to the panel.

US requests working party on MERCOSUR

The United States requested the establishment of a working party to examine, in the light of GATT Article XXIV (on free trade areas and customs unions), the Southern Common Market (MERCOSUR). It said that this regional arrangement, composed of Argentina, Brazil, Paraguay and Uruguay, was aimed at establishing a customs union at the end of 1994. While the United States welcomed MERCOSUR as a potential engine for economic growth in Latin America, the establishment of such an arrangement involving 200 million people and $500 billion in GDP required a working-party examination for conformity with GATT Article XXIV.

Argentina, Brazil and Uruguay (Paraguay is still in the process of acceding to the GATT) maintained that MERCOSUR, as a preferential trade arrangement among developing countries, was covered by special procedures under the Enabling Clause. They said that MERCOSUR formed an integral part of the agreements under the Latin American Integration Association established by the Montevideo Treaty of 1980, which had been notified to the Committee on Trade and Development (CTD) under the Enabling Clause. (Note: The Council normally establishes working parties to examine the consistency of free-trade agreements and customs unions with GATT provisions, in particular Article XXIV, which provides that such arrangements should not harm the trade interests of other GATT members. The Enabling Clause or “Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries” was a Decision reached by the Contracting Parties in November 1979 at the conclusion of the Tokyo Round. It formed the legal basis in GATT for the GSP programmes as well as for preferential trade agreements among developing countries like the GSTP. The establishment and subsequent enlargement of the European Community, as well as the Canada-US Free Trade Agreement were among the arrangements that have been subject to Article XXIV examination.)

Brazil said that granting the US request for a working party would be tantamount to limiting a right developing countries had acquired after prolonged negotiations in the Tokyo Round. It noted that the CTD, on 13 June, held a substantive discussion of MERCOSUR based on comprehensive reports submitted by members of the arrangement (see page 8). Brazil said that a compromise proposal tabled by the Community at the CTD meeting - for the CTD to establish a working group to examine MERCOSUR - was currently the subject of consultations in the Committee. It suggested that the Council await the results of these consultations.

The Council agreed to revert to the matter at its next meeting.

New free-trade agreements to be examined

The Council established working parties to examine, respectively, the following free-trade agreements:

- EFTA-Czech and Slovak Republic Free-Trade Agreement. This was signed on 20 March and entered into force on 1 July for CFSR, Sweden and Norway. Switzerland was provisionally applying the agreement, which was still subject to ratification in Austria, Finland and Sweden. The objective of the agreement was to abolish tariffs and other restrictions on substantially all of the trade between the EFTA members and the CFSR.

- Sweden’s Free Trade Agreements with Estonia, Latvia and Lithuania. Sweden said the abolition of tariffs and other restrictions on its trade with the Baltic states was aimed at facilitating the integration of these countries into the European and the world economy. Sweden’s agreements with Latvia and Estonia entered into force on 1 July, while the agreement with Lithuania would be operational upon its ratification by that government.

Waiver granted to Egypt’s tariff changes

Egypt reiterated a request for a temporary waiver to implement changes in its tariff system aimed at assisting an economic reform programme. It believed that a favourable agreement on this matter had been reached in consultations with its main trading partners. Egypt expressed readiness to enter into Article XXVIII negotiations (on modification of schedules) with other GATT members after the granting of the waiver.

The European Community, the United States and New Zealand said that their concerns were successfully dealt with in the consultations, and that they looked forward to their negotiations with Egypt.

The Council adopted the draft decision on the granting of the waiver to Egypt and submitted it to a postal-ballot vote by the Contracting Parties.

June Council

Two panel reports on US measures adopted

The Council, on 19 June, adopted two panel reports concerning United States’ trade measures. The first report found that various US measures at federal and state levels discriminated against imports of Canadian beer, wine and cider. The second report ruled that the United States had failed to grant most-favoured-nation treatment to Brazilian non-rubber footwear in a countervailing action.

The Council also authorised the European Community to begin renegotiation, under GATT Article XXVIII.4, of its tariff concessions on oilseeds with the United States and other GATT members (see previous Focus).
US measures on beer

Canada urged the Council to adopt the report on US measures affecting alcoholic and malt beverages, noting that this was the second consideration of the report. It said that the measures found to be inconsistent with GATT provisions with respect to taxation, distribution, transportation, pricing, listing/delisting and access to points of sale constituted significant barriers to Canadian beer in the US market.

The United States stressed that beer and wine from Canada were freely available in all states, and that commercial competitiveness, not trade barriers, determined which brands succeeded in the US market. It did not oppose the adoption of the report. However, it expressed reservations on certain aspects of the report related to the relationship between the states and the Federal Government, which it said raised constitutional questions. The United States also rejected what it said was an incorrect conclusion that state statutes were never covered by the GATT Protocol of Provisional Application ("grandfather clause" of the General Agreement).

Canada said that the United States had had ample opportunity before the panel to present arguments and evidence regarding its federal and state law and practice. It believed that the panel report should be adopted without reservations.

The EC, New Zealand, Australia and Argentina - members with trade interest in the matter - supported the adoption of the report.

The Council adopted the panel report.

US denial of MFN treatment

The panel report on this case was first considered by the Council in February. The dispute concerned Brazil's complaint that the United States had discriminated against Brazilian non-rubber footwear in backdating an obligation under the Subsidies Agreement (see Focus No. 88).

The panel found that the United States, under Section 104(b) of the Trade Agreement Act of 1979 had failed to grant to Brazil and other signatories to the Subsidies Agreement the advantage accorded in Section 331 of the Trade Act of 1974 to like products originating in countries beneficiaries of the United States' GSP programme. This advantage involved the automatic backdating of the revocation of countervailing duty orders issued without an injury determination to the date on which the United States assumed the obligation to provide an injury determination. The panel concluded that the United States had acted inconsistently with Article I:1 of the General Agreement. As Brazil had only requested a general ruling, the panel did not issue a recommendation on action by the United States.

The United States told the Council that although it considered the panel's analysis and conclusions to be seriously flawed, it would agree to the adoption of the report out of respect for the GATT dispute settlement process. However, it expected that Brazil would now allow the adoption of a panel report on the same issue in the Subsidies Committee, which had concluded that the United States had acted consistently with the Code.

Brazil said this dispute was not an academic matter. It had been brought to GATT because of its significant impact on Brazilian exporters. Brazil expected that the United States would take steps to implement the panel's conclusions and bring itself into compliance with the General Agreement.

The Council adopted the panel report.

Latin-American countries to consult with EC on bananas

Under "Other Business", Costa Rica informed the Council that together with Colombia, Guatemala, Nicaragua and Venezuela, it had requested GATT Article XXII consultations with the Community in regard to the present import regimes on bananas applied by several EC member states and the proposed EC-wide regime to be applied as from 1 January 1993. It charged that restrictions applied on bananas by France, the United Kingdom, Spain, Portugal and Greece discriminated against Latin American exporters and were clearly GATT inconsistent. It said a proposal by the European Commission to unify these import regimes would aggravate the situation. The proposed quota restrictions and their administration through licenses, Costa Rica said, would reduce the sales of bananas in the Community by about 30 per cent in 1993 and up to 70 per cent by 1997.

Costa Rica, Nicaragua, Colombia and Venezuela stressed the economic importance of the banana industry in their region. They said that the proposed EC import quota regime for bananas would run counter to the spirit and letter of the standstill and rollback commitment of the Uruguay Round.

These countries' position was supported by Mexico, Uruguay, the United States, Peru, the Philippines, El Salvador, Australia and New Zealand.

Jamaica emphasized that the proposed EC import regime on bananas represented a wish by the Community to fulfill its long-standing obligations with the African, Caribbean and Pacific (ACP) countries under the various Lome Conventions. It said that the ACP members were all developing countries, and some of them depended highly or almost exclusively on exports of bananas. The ACP countries' share of the EC banana market was only about 20 per cent while that of Latin America was 60 per cent. The proposed EC regime, it noted, would be terminated after ten years.

Côte d'Ivoire, Senegal and Madagascar supported Jamaica's statement. They called on the Council to recognize the real difficulties facing the ACP countries, and stressed that any solution to the matter should involve provisions enabling these countries to continue exporting to their traditional markets.

The Community noted that this item was added to the agenda only at the start of the meeting. It would consult with the countries concerned but stressed that the proposed import regime on bananas was not yet part of the EC statutes. The Community had a legacy of different regimes on bananas stemming from the history of its member states, and it had to somehow deal with conflicting obligations. It could not accept that its current import regime on bananas was inconsistent with the General Agreement.

Yugoslavia restrained from participating in the Council

The Chairman reported that the break-up of the former Socialist Federal Republic of Yugoslavia had posed the question of its status as a GATT member. He said the claim by the delegation of the Federal Republic of Yugoslavia to the status of successor had been contested by some GATT members. After holding informal consultations, he believed there was agreement that the issue would need consideration by the Council.

The Council agreed that without prejudice to the question of who should succeed the former Yugoslavia and until it returned the issue, the representative of the Federal Republic of Yugoslavia should refrain from participating in the business of the Council.
Trade Policy Review Mechanism

Council examines trade of Bangladesh and Canada

In June, the Council reviewed for the first time the trade regime of a least-developed country, that of Bangladesh (9-10 June), and held a second examination (10-11 June) of Canadian trade policies. The complete reports on these two reviews will be available from the Secretariat in September 1992.

The Trade Policy Review Mechanism (TPRM), an early result of the Uruguay Round, enables the Council to conduct a collective evaluation of the full range of trade policies and practices of each GATT member at regular periodic intervals. This is to monitor significant trends and developments that may have an impact on the global trading system.

The following are excerpts from the Chairman’s summaries of the discussions in the Council:

**BANGLADESH**

In his introductory statement, the representative of Bangladesh highlighted the extreme economic and social difficulties faced by Bangladesh, as a least-developed country. Population density was among the highest in the world, leading to severe strains on land and other resources, and the country possessed few natural resources. Natural disasters - such as the 1991 cyclone - were frequent. Exogenous shocks - such as the Gulf crisis - bore heavily on the economy. With low levels of technological development and factor productivity, per capita income was less than US$200 per annum.

Despite these difficulties, since 1985 successive Governments had embarked on a process of reform, with a gradual shift away from import substitution based on public ownership towards an outward-oriented development strategy relying primarily on private enterprise. There had been significant reductions in tariffs: the weighted average tariff was now about 20 per cent. The scope of import restrictions had been reduced and procedures simplified. Restrictions on investment had been virtually eliminated: domestic and foreign investors were treated on an equal footing.

The pace of reform was, however, limited by the structural constraints inherent in the Bangladesh economy. Owing to the narrow production and export base, export earnings financed only 40 per cent of the total import bill. The trade gap thus had to be contained within the limits of foreseeable external assistance.

Participants recognised the severe economic and social problems faced by Bangladesh. Its vulnerability to external shocks was exacerbated by the narrow export base. Traditional exports faced depressed markets and strong competition. At the same time, domestic poverty, combined with a low level of foreign exchange resources, placed severe constraints on potential investment. Bangladesh was dependent on substantial foreign aid for financing its import bill.

Welcome export diversification had taken place, but remained limited. The garment and seafood industries had broadened the export base somewhat from the traditional areas of jute and tea. Growth had also occurred in exports of leather products, with some improvement in value added. However, potential for garment exports remained restricted by MFA restraints; productivity in seafood was low by international standards and the sector had been severely affected by the 1991 cyclone; and income and price elasticities for Bangladesh’s traditional exports remained low.

**Praises and concerns**

Participants welcomed the market-oriented reforms introduced since 1985, including: reform of import policy, particularly the lowering of tariffs, reduction of import restrictions and simplification of import procedures; greater role of the market in the determination of the exchange rate; and promotion of conditions favouring the expansion of non-traditional export industries.

However, participants also called attention to domestic policies which, in their view, constrained Bangladesh’s trade and development. These included: tariffs remained high overall, with considerable peaks; import procedures appeared still to be somewhat cumbersome; minimum export price requirements for jute and value-added requirements for garment exports remained in force; exports of wet-blue leather remained banned; “sick” industries were heavily supported through easy access to credit and direct Government funding which could better be devoted to more productive activities.

It was emphasised that an improved external trading environment could provide significant support for the reforms being undertaken in Bangladesh. The urgent need was stressed for trade liberalization in areas of export interest to Bangladesh, including textiles and clothing, where existing quotas were substantially filled. This should be complemented by increased financial assistance, as well as technical cooperation in areas such as flood control and the development of infrastructure.

**Trade reforms to continue**

In reply, the representative of Bangladesh said that his authorities would be encouraged by the positive response of
Council members to his country’s trade reforms. Bangladesh fully intended to continue in its current policy direction.

On specific points he said:
• it was true that average tariffs were relatively high, but peaks were few. The budget was still very dependent on tariff revenue and tariffs remained necessary to safeguard certain infant industries;
• tax reform was being pursued but was made difficult by the small size of the organized sector;
• import procedures were still not fully simplified, but the foreign exchange constraint made it necessary to monitor use of external resources carefully;
• the minimum price for jute and jute goods sought to ensure a reasonable return for jute growers;
• privatization was made difficult by the scarcity of domestic investment financing;
• high unemployment rates and the absence of a social safety net implied the need for caution in implementing rationalization programmes for “sick” industries; and the exchange rate was set according to a basket of currencies of Bangladesh’s main trading partners.

Conclusions
In conclusion, the Council encouraged the Bangladesh authorities to continue the process of trade policy reform. It welcomed the measures taken to reduce administrative barriers to imports and to reform the tariff structure.

At the same time, it recognized that inefficiencies in resource allocation were fostered by assistance to uncompetitive firms. The Council stressed that Bangladesh, as a least developed country, faced severe domestic and external constraints. Improved access to markets for Bangladesh’s exports in the context of the Uruguay Round, would support the reforms and facilitate the development of a more efficient productive economy. This should be reinforced by adequate financial and technical assistance.

CANADA

In his opening statement, the representative of Canada said that Canada’s economic and trade policy objectives - to achieve a stronger and more competitive domestic economy within a more stable and open international trading environment - had not changed since the first review. A comprehensive programme of economic renewal had been implemented, based on the restoration of macroeconomic balance and the reorientation of structural policies to promote sustainable growth. Canada’s specific trade policy aims were, first and foremost, the successful completion of the Uruguay Round; secondly, vigorous pursuit of the NAFTA negotiations consistent with GATT obligations; and liberalization of other conditions for trade and investment. Canada had already eliminated tariffs on a range of consumer products in February 1992 and, through the introduction of the Goods and Services Tax, had done away with trade-distorting features of its previous internal taxation.

Canada’s main protective instrument was the tariff; most rates were low and bound. The complexity of Canada’s tariff was partly the result of historical developments relating to preferential access. Successful conclusion of the Uruguay Round would contribute to simplifying the system. Within the Round, one main objective was to improve overall market access for Canadian goods and services. In this connection, it sought total elimination of all trade barriers in certain sectors, including resource products. Multilateral liberalization would help to balance the concentration of trade in the US market. Canada’s aims in the agricultural trade negotiations were to reduce conflicts and distortions and, in particular, to achieve effective disciplines on export subsidies.

Prime Minister Brian Mulroney opening the Mid-Term Review of the Uruguay Round in Montreal. At its second TPRM review, Canada reaffirmed its strong support for the Round’s success.

Commitment to Uruguay Round welcomed
Council members welcomed Canada’s strong attachment to the multilateral trading system and the top priority given by Canada to a successful completion of the Uruguay Round negotiations. Canada had continued in the direction of opening its economy over the past two years, despite the recession. Federal public support to industries had been reduced. New sectors had been opened to foreign investment. Canada’s competition law, strengthened in the mid-1980s, had been applied with resolve. Efforts were also being made to improve federal-provincial co-ordination in areas such as Government procurement and farm subsidies.

Few new major trade policy initiatives had been taken by Canada since the last review. This might partly be ascribed to the unfinished state of the Uruguay Round. However, the general trend of Canada’s trade policies was positive. Some unilateral tariff reductions had been made; the country coverage of the GPT scheme had been extended; the number of anti-dumping measures and new initiatives had declined; and no new safeguard measures or countervailing actions had been taken. Members also appreciated Canada’s resistance to industry pressures for increased trade restrictions in areas such as horticultural products and beef. These elements might not in the short run be reflected in import penetration ratios.

In the event of trade frictions and conflicts, including those with the United States, Canada had continued to use transparent multilateral mechanisms, rather than unilateral measures or informal arrangements. A number of bilateral disputes arising under the FTA with the United States had been brought to GATT, rather than taken up in bilateral fora. In this
Canada’s response

In response, the representative of Canada noted that a review of Canada’s trade policies would have presented a very different picture if the Uruguay Round had been successfully concluded. This would be particularly true in areas such as tariffs, agricultural support and intellectual property. In contrast to some observations made in the debate, quite significant trade liberalization measures had been taken since the last review. Moreover, Canada’s economy was already significantly open, with low levels of protection. The “Prosperity through Competitiveness” initiative at this stage involved research and consultations with the private sector on a new, broader policy agenda.

In the textiles and clothing sector, restraints under MFA agreements were designed to ensure that the rate of growth of imports was commensurate with an orderly adjustment process. The share of imports in the Canadian market had increased and that of developing countries in the volume of imports was stable: shifts in market shares had occurred between developed country suppliers. Safeguard measures under the MFA had been used sparingly. Sectoral tariffs would be addressed in the market access negotiations, based on recommendations by the Canadian International Trade Tribunal. Canada remained fully committed to the integration of this sector into the GATT under the Uruguay Round.

Dispute settlement procedures under provisions unique to the FTA were brought to the bilateral forum, while disputes involving GATT provisions could be pursued under either the FTA or GATT procedures. Both Canada and USA continued to have frequent recourse to the GATT dispute settlement process. Bilateral conclusions were not binding on third parties and did not abridge their rights under the GATT.

In terms of Canada’s accession to GATT, the federal government would continue to take such reasonable measures as may be available to it and which are fully compatible with the constitutional and political system of Canada, to ensure the conformity of provincial practices and measures with its GATT obligations.

In agriculture, Canada believed that there was a legitimate role for a strengthened and clarified GATT Article XI. The need for increased assistance to Canadian agriculture was provoked by price deterioration, particularly for grains and oilseeds. New Government support programmes provided income protection rather than commodity-specific price support. Restrictions on consignment selling of perishable fruits and vegetables were designed to prevent distress sales and were applied on an m.f.n. and national treatment basis.

The complexity of the Canadian tariff would be greatly simplified as a result of Uruguay Round negotiations on market access. As to the exclusion of agricultural products, textiles, clothing and leather goods from the GPT, tariff preferences had originally been designed to help developing countries overcome competitive disadvantages. In the aforementioned sectors, developing countries had become highly competitive.

The recession in Canada had resulted from a slowdown in domestic demand and the onset of recession in the United States, compounded by structural factors. Excessive restructuring by the private sector to improve productivity had, unfortunately, slowed employment growth. Such restructuring, as well as low inflation and positive cyclical factors, were expected to improve Canada’s competitiveness in future years. Deterioration in Canada’s trade was strictly a result of the recession and the Canadian Government remained optimistic about the long-term effects of the FTA.

Conclusion

In conclusion, the Council recognized Canada’s major role in the multilateral trading system. It welcomed the steps taken by Canada since the last review to move further in the direction of greater liberalization and increased access to the Canadian economy, but noted that areas of high tariff and non-tariff protection remained, particularly in product groups of interest to developing countries. While recognizing the linkage between success in the Uruguay Round and the process of furthering and consolidating Canada’s trade and economic liberalization, the Council emphasised the benefits of autonomous liberalization for Canada.

The Council encouraged Canada to continue harmonization of federal and provincial policies affecting trade. The Council called attention to the effects of remaining restrictions on inter-provincial trade and establishment for external investment and trade flows. The Council expected that Canada’s undertakings in the Uruguay Round would contribute to greater openness in this area.

The Council welcomed Canada’s commitment to the GATT system as the foundation for its bilateral and regional trading arrangements. It noted that GATT provisions had been used under the FTA by both Canada and the United States. The Council emphasised the need for the FTA, and the future NAFTA agreement, to be trade-creating and fully consistent with GATT.
Committee on Trade and Development

Focus on MERCOSUR and GSP extension

The coverage of the Enabling Clause was the focus of discussions at the meeting of Committee on Trade and Development (CTD) on 13 July.

GATT members of the Southern Common Market or MERCOSUR - Argentina, Brazil and Uruguay - presented detailed reports on the trade arrangement, which envisaged the formation of a customs union (the fourth MERCOSUR member, Paraguay, is still in the process of accession to GATT).

The MERCOSUR countries stressed that the arrangement, which went into full effect in November 1991, was in line with their strategy of liberalizing and deregulating their economies. The aim was to establish a common external tariff by the end of 1994. They stressed that MERCOSUR, as a trade arrangement between developing countries, was covered by the Enabling Clause of the GATT.

The United States said that it intended to ask the Council that MERCOSUR be examined for conformity with GATT Article XXIV (see Council article on page 3) under the normal process of a working party. The United States expressed surprise and disappointment that this had become a contentious issue. It was not against the arrangement but only wished to have such a major trade pact receive the GATT seal of approval.

The European Community said that GATT members should have the opportunity to conduct a detailed examination of MERCOSUR. It tabled a compromise proposal whereby the CTD would establish a working party to review MERCOSUR. In this working party, any member could refer to any relevant provisions of the General Agreement. MERCOSUR members would submit more complete information. The working party would submit a report, including recommendations, to the Committee.

The Chairman of the CTD, Ambassador Jésus Seade (Mexico), said he held consultations on the EC proposal.

GSP extension to Eastern and Central Europe

Stressing it had no intention to create difficulties for the countries concerned, Brazil urged that the CTD examine the issue of GSP extension to Eastern and Central European countries. It stressed that the Enabling Clause covered only developing countries. Argentina and India supported Brazil’s proposal.

Canada, the EC, the United States were among those who stressed that these reforming countries faced economic problems similar to developing countries, and thus also needed improved market access.

The CTD agreed to revert to the matter at its next meeting.

Members also reviewed recent GSP notifications and GATT technical cooperation activities (see photo above).