US, EC clash over oilseeds as their wheat export subsidies draw fire

Heated disputes over agricultural subsidies at the 29 September-1 October Council meeting highlighted once again that the key to the resolution of many trade differences was a quick conclusion to the Uruguay Round, according to many GATT members.

The Council considered problems hindering the European Community’s renegotiation of its oilseeds concessions with the United States and other GATT members, which it had authorized in July (see Focus No. 92). Despite intensive consultations stretching over three days, the United States and the Community could not agree on a compromise solution. It

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Dunkel pushes Round accord

As negotiations intensified in late October between the United States and the European Community over their outstanding differences in the Uruguay Round, Mr. Arthur Dunkel stressed the two economic powers’ “crucial responsibility” in ensuring a credible multilateral trading system based on the GATT.

The Trade Negotiations Committee Chairman, in a press statement on 22 October, hoped that in the coming days, Round participants would be able to make an informed evaluation of the situation, which would be the basis “of collective decisions concerning the ongoing multilateral negotiating process.” He remained convinced that the United States and the European Community “recognize the critical importance of a rapid and successful conclusion of the Round in the face of a sluggish world economy.”

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Working Parties set up on accession of Chinese Taipei and Ecuador

Latvia, Lithuania and Kazakhstan granted observer status

The Council, on 29 September, established working parties to examine the membership applications of Chinese Taipei and Ecuador - bringing to 11 the number of such groups currently working in the GATT. At the same time, it granted GATT observer status to an additional three new republics of the former Soviet Union - Latvia, Lithuania and Kazakhstan - as a preliminary step towards a formal accession application.

The Council Chairman reported he had carried out extensive consultations in recent months on the subject of establishing a working party to consider the possible accession to the GATT of Chinese Taipei, to be known in full as the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu. He said that all GATT members acknowledge the view that there is only one China, as also expressed in the UN General Assembly’s Resolution 2758 of October 1971. Many contracting parties, therefore, agreed with the view of the People’s Republic of China (PRC) that Chinese Taipei, as a separate customs territory, should not accede to the GATT before the PRC. Some contracting parties did not share this view. There was, how-

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COUNCIL

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was agreed that the Council would revert to the issue at its next meeting on 4 November.

At the same time, US and EC direct export subsidies on wheat drew widespread concern in the Council. Australia complained that the escalating battle for market share between the two major wheat exporters, as indicated by the recent US decision to expand its wheat export programme, was damaging trade of non-subsidizing GATT members.

US-EC oilseeds dispute

The European Community reported that during the past two months, it had undertaken renegotiations on its oilseeds concessions with the United States and other concerned GATT members under the procedures set forth in Article XXVIII. However, important legal questions had impeded progress in these bilateral negotiations. These included issues regarding determination of market shares, status of initial negotiating rights, estimation of impairment of a tariff concession, 'legal expectations' for a GATT member that had acquired negotiating rights after the granting of the concession. The EC proposed the creation of a small group, excluding representatives of the countries involved in the dispute, to conduct an expeditious examination on these questions and report back to the Council.

The United States responded that the Community was trying to stifle GATT procedures through delaying tactics. It criticized what it said was a pattern of delay by the Community with respect to this dispute, noting that the dispute had already been examined twice under GATT dispute-settlement procedures. It maintained that the amount of compensation, not the legal questions raised by the Community, was the issue blocking the negotiations. It estimated that the total trade damage caused by the EC subsidies on oilseeds amounted to about US$2 billion while the EC's offer never went beyond US$400 million. To resolve this question, it proposed the establishment of an arbitral body which would make a binding determination within 30 days, on the total value of the impairment caused by the EC oilseeds subsidies. It said this would be "a clean and simple procedure" that would speed up the amicable resolution of the dispute.

The Community said while the US proposal might be attractive at first glance, it would be tantamount to issuing a "blank cheque" to the United States without an evaluation by the Contracting Parties as required by Article XXVIII. The EC stressed it would have great difficulty accepting a mechanism that would result in a "binding" decision.

Canada and Pakistan, which were among members involved in Article XXVIII negotiations with the Community, expressed disappointment with the EC offers and supported binding arbitration on this dispute. India, Uruguay, Argentina, Korea, the ASEAN contracting parties, and New Zealand also supported the US proposal. On the other hand, Australia, Switzerland and the Nordic countries questioned the legal basis of the proposed arbitral body.

The Council came back to the issue on 1 October. The European Community said it had worked hard in Geneva and in the capitals on finding a solution. It said that the ideas it had developed were not accepted by the United States. It continued to have very substantive difficulties with the US proposal, which, it believed, did not fit in with the Article XXVIII procedures. While anxious to reach a solution to the dispute, the EC said it could not turn the GATT on its head to get there.

The United States said the GATT was in a state of crisis over agriculture, which underlined the importance of concluding the Uruguay Round. It was prepared to continue negotiations with the Community but warned that time was running out. It proposed the establishment of a panel to examine the issue. It requested the establishment of a panel to examine the issue. The Council agreed to revert to this matter at its next meeting.

Argentina asks for a panel on oilseeds negotiating rights

Argentina complained that during the Article XXVIII negotiations, the EC had only recognized its status as a principal supplier for sunflowerseed cake but not for soybeans and soya cake. It contended that, under Article XXVIII, it should be considered by the EC as a principal supplier for the two latter products because they constituted a major part of its total exports. It requested the establishment of a panel to examine the issue.

The Council agreed to address the question with Argentina but believed there was no merit to further discussion in view of efforts to find an overall solution to the oilseeds issue.

Argentina said it could not remain "in limbo" on this matter and stressed that under the dispute-settlement procedures, it had the right to a panel at the next Council meeting.

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

Wheat subsidies draw fire

Australia charged that direct export subsidies by the European Community and the United States in their escalating competition for market share in world wheat markets were hurting other GATT members at a crucial juncture in the Uruguay Round negotiations. A successful conclusion to the Uruguay Round could bring to address this problem, it said, but in the meantime the Council should find ways to mitigate the trade damage caused by the EC and US wheat subsidies.

The institutionalization of wheat subsidies in world wheat trade, according to Australia, started in 1967 when the European Community, a net wheat importer in the early 1960s, established a system under which EC wheat traders were able to obtain Community funds to target any market and to undercut any other suppliers. Between 1980-81 and 1990-91, EC wheat exports increased by 54 per cent to some 20 million tons. In 1985, the United States countered with the introduction of export subsidy arrangements for wheat under the Export Enhancement Programme (EEP). The EC and US subsidy programmes, Australia said, "effectively created a two-tiered world market, where more than half the wheat trade is sold at predatory, subsidy-discounted prices."
leaving non-subsidizers to compete for what is left."

A worrying development, Australia said, was the announcement by President Bush on 2 September that 29.1 million tons of US wheat would be eligible for sale to 28 markets under the EEP. The objective was to counter EC subsidized grain but the measure also extended the sale of subsidized wheat to "an ever-widening range of markets previously unpolluted by subsidized exports." It also indirectly gave a signal to US producers to expand production.

**GATT initiative for ITC**

The Office of the Executive Director of the International Trade Centre UNCTAD/GATT (ITC) has been vacant since the beginning of the year. Established by GATT in 1964 to assist developing countries in export promotion, the Centre is a joint subsidiary organ of the GATT and the United Nations, the latter acting through UNCTAD since 1968. A qualified person had been chosen to head the ITC but his appointment has been hampered by new UN conditions regarding length of tenure and salary.

The Council Chairman, Ambassador B.K. Zutshi, reported that he had met in late July with the UN Secretary General on this issue. He said he explained the concern of GATT members regarding the present state of affairs in the ITC resulting from the vacancy of the post. He also underlined the importance of ITC to developing countries, especially the least-developed countries. The UN Secretary General replied that any change in his stand on this issue would compromise his efforts at restructuring of the UN system.

The Council Chairman said that many delegations were keen on settling the problem without further delay despite the absence of an agreement and the lack of a partnership approach on the part of the UN. In informal consultations, it had been agreed that delegations would submit two options on the matter to their capitals, one of the level of the post of the Executive Director, and the other on the joint partnership issue, so that a decision might quickly be reached.

Ambassador Zutshi said that the level of the post was not the real problem - "what is at stake now is the size, the nature and the importance which governments wish to attribute to the ITC." He suggested further informal consultations on this issue.

The United States said that the recent EEP package replaced all previously announced wheat initiatives and would not result in significant increases in either the tonnage of subsidized wheat or overall EEP spending. It emphasized that the EEP program was designed solely to counter the EC's use of export subsidies. It said that even with the EEP, its share in the world market for wheat had continued to erode: from 1983-84 to 1991-92, the EC share of the world wheat market had climbed from almost 14 per cent to 22 per cent, while the US share had decreased from 38 per cent to 31 per cent. The EC subsidized wheat at an average rate of $125 per ton while the US EEP bonuses had been running at about $40 per ton. While it would continue to push for a Uruguay Round agreement with disciplines on agricultural subsidies, it would not stand back and let its exports be displaced by EC subsidized exports.

The European Community wondered why it should be drawn into the issue of the recent US EEP announcement. It maintained that since the launching of the Uruguay Round, it was the only participant that had undertaken substantial reforms on agriculture. The Community contended that the GATT did not contain any prohibition on subsidies to commodity exports. On the Australian proposal, it said there could be no solution to the problem of wheat subsidies until the conclusion of the Uruguay Round, and questioned the utility of Council efforts parallel to the multilateral negotiations.

Argentina said it was concerned that the EC and the United States' share of the world wheat market had risen from 27 per cent in 1970 to 52 per cent in 1989 through the use of subsidies. Canada said the EEP announcement meant that there were no markets left undisturbed by US and EC subsidies. Brazil said that in support of GATT principles, it would not be buying subsidized wheat.

The Chairman noted the widespread concern on competitive subsidization in agricultural commodities, particularly in wheat, by the two major traders. While there was agreement that the best solution would be through an early conclusion of the Uruguay Round, there seemed to be a general desire to hold informal consultations on how to address problems arising from wheat subsidies. The Chairman said he was ready to conduct such consultations.

**US-Canada beer dispute**

Canada reported that despite failing to obtain authority to retaliate from the Council at the previous meeting (see Focus No. 92), the United States, on 24 July, imposed a surtax of 50 per cent ad valorem on Canadian beer originating from the province of Ontario. It said that it had no choice but to take similar action. Thus, Canada had imposed a surtax of 50 per cent ad valorem on certain US beers destined for the province of Ontario. It said that the United States remove its measure, it would do the same immediately. Canada repeated its offer for a GATT panel to examine whether Ontario's practices were consistent with the panel report on Canadian beer practices.

The United States reiterated that Ontario's practices affecting imported beer were contrary to the recommendations by the panel, and had resulted in uncompetitive prices for US beer. It would not remove its surtax until Ontario had changed its regulation. In the meantime, it would not rule out further consultations with Canada on this matter.

Brazil, Argentina, Japan and the EC expressed concern that two major trading countries had taken unilateral measures in clear breach of GATT rules.

**Director-General asked to help settle banana dispute**

Costa Rica, on behalf of Colombia, Guatemala, Nicaragua and Venezuela, said they have asked the GATT Director-General to use his good offices to find a solution to their dispute with the European Community over import restrictions on bananas currently applied by some EC members. This was in keeping with procedures under the GATT Decision of 1966 regarding disputes involving developing countries.

Consultations with the EC held in July and September, according to Costa Rica, had failed to come up with a solution to the dispute. It complained that during the period of consultations, the EC Commission had prepared for adoption by the EC Council of Ministers a regulation that would extend the restrictions on bananas to all EC members.

Costa Rica charged that the new EC banana regime would be a direct violation of the standstill and rollback commitments of the Punta del Este Declaration as well as the agreement on tropical products reached during the Mid-Term Review of the Uruguay Round.

A number of delegations registered concern over the EC proposed quota regime on bananas. The United States, for one, said this ran contrary to tariffication of agricultural import restrictions in the Draft Final Act of the Uruguay Round.

Jamaica, supported by other ACP (Africa, Caribbean and Pacific) countries, emphasized that the EC had to fulfill obligations under the Lomé Convention,
which was a special arrangement in favour of developing countries. It pointed out that in Jamaica bananas were produced by small-scale, individual farmers whose livelihood was at stake. The amount of trade in question did not constitute a significant part of the world banana market, and could be considered negligible when viewed in terms of the world’s total trade for goods, according to Jamaica. Thus, this issue should not be treated as a major threat to the Uruguay Round.

The EC said the subject was an issue of great complexity. It stressed that it had clear obligations to fulfil with respect to Lomé countries, many of which were least-developed countries. It added that it saw no obligation in the GATT to discuss a future trade regime.

Concerns over South Africa’s import surcharges

The United States expressed concern over damage to its exports caused by South Africa’s tariff surcharges, some of which ranged up to 60 percentage points over applied tariff rates. It added that exports of some countries were exempted from these measures, which would be in conflict with GATT’s most-favoured-nation clause. The United States suggested that if, as had been claimed, South Africa applied the surcharges to protect its balance-of-payments situation, the country should consult with the GATT Committee on Balance of Payments Restrictions concerning their justification and future application.

Switzerland said its exports to South Africa had encountered problems similar to those cited by the United States, in particular, textiles and watches. Japan, the EC, Argentina and Canada expressed concern that South Africa had not justified under GATT the increase in import surcharges.

South Africa said that its economy had been in a state of decline, and that one contributing factor to this situation was the continued application of trade and financial sanctions. It added that while some sanctions had been lifted, others were still in effect. It had started to phase out these surcharges and this effort could be pursued more actively as sanctions against it were further lifted.

Follow-up of panel reports

After a discussion on the problem of implementation of panel reports at the previous Council meeting, the Chairman reported he had held consultations on how the Council could address the issue. One of the results of these consultations, he said, was the inclusion of the subject of follow-up in the Council’s agenda.

New Zealand expressed appreciation for the US report on how it was trying to implement the recommendations of the Section 337 panel, and urged the others concerned to do the same.

Australia reiterated its general concern over the delay in the implementation of adopted panel reports. It stressed that under the new dispute-settlement procedures, the Council should monitor the implementation of adopted panel reports and that the concerned parties were obliged to submit regular reports. Australia said it still considered the panel reports on Japanese agricultural restrictions, the US sugar quota and Korean beef restrictions as “unfinished business.”

Japan stated that it had notified recent measures to improve access to its market, including those on certain agricultural products. However, it pointed out that the new dispute-settlement procedures applied only to disputes as from 1 May 1989 and thus did not cover the 1988 panel report on Japan’s restrictions on certain agricultural products.

Korea and the European Community agreed with Japan’s view on the application of the new dispute-settlement procedures. Australia contended that all adopted panel reports were covered by the new procedures.

The Chairman said that the item on follow-up of panel reports would remain on the agenda of the Council in its present form until decided otherwise in informal consultations.

US reiterates request for MERCOSUR working party

The United States repeated its request that the Council establish a working party, under GATT Article XXIV, to examine the Southern Common Market (MERCOSUR). Brazil objected to the US request, noting that informal consultations were being conducted in the Committee on Trade and Development to find a solution to this issue.

Under “Other Business,” the following points were raised:

- Argentina requested Article XXII:1 consultations with Norway regarding a hydroelectric project in Costa Rica. It expressed concern that the Norwegian firms’ bid for the project included a donation. Argentina said this implicit subsidy was incompatible with GATT Article XVI, the Subsidies Code and the Government Procurement Code. Norway took note of the concern but reserved its rights regarding the relevance of the matter to Council work.
- Chile protested against recent subsi-
TPRM

Trade policies of Egypt, Japan and Brazil reviewed

The Council, in the autumn, examined the trade regimes of Egypt (5-6 October), Japan (12-13 October) and Brazil (14-15 October) under the GATT Trade Policy Review Mechanism (TPRM).

The 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 to monitor significant trends and developments which may have an impact on the global trading system. The TPRM reports on Egypt, Japan and Brazil, containing the comprehensive reports of the GATT Secretariat and the Government concerned, and reports of the Council discussions, will be available shortly in English, French and Spanish.

The following are excerpts from the Chairman's summaries of the discussions in the Council. The TPRM report on Brazil will appear in the next Focus.

EGYPT

The representative of Egypt emphasized that Egypt strove to respect its international commitments and obligations, had always participated actively in the multilateral trading system, and was proud to present the steps it had taken in trade liberalization despite difficult circumstances. Since the mid 1980s, there had been a complete reversal in trade policy direction. This had been reinforced since the early 1990s; Egypt's policies were now firmly oriented towards creating a market economy, increasingly based on private initiative and the liberalization of trade, investment and pricing policies, as well as of exchange and interest rates. Such policies had the support of the main international financial organizations and of sympathetic governments.

The public monopoly of foreign trade had also been almost completely phased out and further liberalization was expected, including the establishment of a cotton exchange market. Import and export procedures had been simplified; the share of tradable goods output subject to conditional import prohibition had fallen from over 35% in 1984 to some 10% in August 1992, and the list of products under restriction was kept under continuous review. The advance import deposit had been abolished, as had the requirement that letters of credit be opened prior to importation and conditions that exporters provide servicing facilities for certain imports in Egypt. Similar efforts had been made on the export side. Since 1991, 37 items subject to prior approval had been liberalized; the number of prohibited export items had declined from 20 to 2; only one item (tanned leather) was now subject to export quota and no products remained under public export monopoly.

Changes in tariffs, made in 1991, merely restored duties to their previous levels. Egypt's tariff reform, supported by a GATT waiver, aimed initially to narrow the gap between minimum and maximum rates to 5-100%. The maximum rate was to be further reduced to 80%, with a few exceptions for luxury goods and, transitionally, for revenue reasons. Egypt would adopt the Harmonized System by end-1992. Safeguard and quality control mechanisms would be administered in keeping with international standards and would apply equally to domestic and imported goods.

Participants welcomed Egypt's commitment to continue along the path of reform, in a difficult economic situation. They appreciated Egypt's liberalization efforts, made on an autonomous basis; it was noted that Egypt sought credit in the Uruguay Round for the steps being taken. Members particularly welcomed reforms in the areas of foreign exchange deregulation, reductions in non-tariff barriers, improved public finance management and increased investment opportunities. Further steps were required to complete the programme in areas such as trade liberalization and implementation of new investment regulations. If implemented in a transparent and consistent manner, further deregulation would enhance the predictability and credibility of the reforms.

Concerns

Participants raised a number of specific questions and concerns regarding:

• the level of tariffs, which was generally high, with some exceptional peaks, contributing to marked tariff escalation and very high effective rates of protection in some sectors;
• the very low number of tariff bindings. In this connection, members encouraged Egypt to increase its tariff commitments;
• the possible adherence of Egypt to the Customs Valuation Code and the implications for existing valuation procedures;
• the schedule for further elimination of conditional import prohibitions, which still covered products accounting for a significant share of domestic production;
• criteria for introduction of quality requirements and standards, the scope of which was expanding. Concern was expressed concerning the possible use of these controls for protective purposes;
Judged both on what had been done so far and on the scope of bindings would fall within the ambit of Egypt’s Uruguay Round offer.

Concerning Egypt’s intentions on customs valuation, Egypt followed the Brussels Definition of Value, but was studying and rationalizing and abolishing non-ad valorem forms of tariffs. Tariff peaks remained on significant sectors of interest to many members, but particularly to developing countries. Seasonal tariffs were an important barrier to imports of certain agricultural products, including bananas.

Egypt’s reply

Replying to comments and questions, the representative of Egypt thanked the representatives and discussants for their appreciation of Egypt’s development and its trade policies. Reform in Egypt was a continuous process: Egypt should be judged both on what had been done so far and on its declared intentions. He felt that the recent measures to liberalize trade and the economy could be matched by few countries in Egypt’s circumstances.

Concerning the production coverage of conditional import prohibitions, he reiterated that 71% of goods previously covered had been liberalized, and production coverage had declined to 10.3% at present. The import licensing system was abolished in 1986; prior approval was now applied to 9 import items. Only 2 items were subject to export prohibition, prior export approval had been eliminated and only tanned leather remained under export quota.

Comments on effective rates of protection were based on an outdated study and were no longer applicable. There was no study of current rates, following the 1991 and 1992 reforms, or of average tariffs. Regarding bindings, it was wrong to say 211 out of 267 items exceeded bound rates. The changes made in 1991 and 1992 did not apply to GATT contracting parties. He noted that the waiver obtained in 1991 covered 52 items. Increases in the scope of bindings would fall within the ambit of Egypt’s Uruguay Round offer.

Concerning Egypt’s intentions on customs valuation, Egypt followed the Brussels Definition of Value, but was studying and rationalizing and abolishing non-ad valorem forms of tariffs. Tariff peaks remained on significant sectors of interest to many members, but particularly to developing countries. Seasonal tariffs were an important barrier to imports of certain agricultural products, including bananas.

Conclusions

In concluding this review, my appreciation is that the Egyptian authorities should be complimented for the autonomous steps in recent years to liberalize Egypt’s trade policies and practices, and many aspects of its economy. Their determination to continue the process is welcomed. This process appears firmly supported by a strong commitment to the multilateral trading system. It will be strengthened by a successful conclusion of the Uruguay Round. However, Egypt has been particularly encouraged by the Council to continue its tariff reform process, in order to reduce economic distortions; to increase its level of tariff bindings, in order to improve stability in its trading system; to bring its customs valuation system into line with GATT practice; to provide full details of all new regulations introduced, to increase transparency; and to implement further reforms in a clear and consistent manner.

JAPAN

In his opening statement, the representative of Japan affirmed that Japan’s trade policy objectives aimed to achieve healthy development of the national and world economies through free, non-discriminatory trade, conducted in accordance with GATT principles. Japan’s recent package of comprehensive economic measures was aimed at moving the economy to a sustainable, non-inflationary growth path led by domestic demand. Japan had also, in the period since the last review, voluntarily implemented a number of measures to improve access to its market, including unilateral elimination of tariffs on over a thousand mining and manufacturing products, a ten-year extension of its GSP scheme, and a variety of steps to liberalize non-tariff measures under the Action Programme for Improved Market Access. Government procurement procedures had been improved, the operations of the Office of the Trade and Investment Ombudsman had been strengthened and provisions regarding direct foreign investment had been revised to make them more open and transparent. He emphasized that Japan was the world’s largest net importer of agricultural, forestry and fishery products and that, since the beginning of the Uruguay Round, Japan had been implementing market-opening measures. Japan now had the lowest food self-sufficiency ratio of any developed country. Non-trade aspects of agriculture such as long-term food security, conservation of the environment, and revitalisation of rural communities were very important to Japan.

The main reason for taking voluntary export restraints was that importing countries did not take measures consistent with GATT rules. Japan had taken such measures, as emergency and unavoidable expediency, only on the request, or with the consent of importing countries, and to the minimal extent.

Council members welcomed the efforts made by the Japanese Government, against the backdrop of a deteriorating economic situation and rising current and capital account surpluses, to improve the structural functioning of the Japanese economy, especially in the areas of trade, investment and industrial policies. Members commended the recently-introduced fiscal packages aimed at promoting domestic demand-led growth, and the longer-term objectives contained in the Five-Year Plan: however, comments were made regarding the stagnation of imports of manufactures between 1989 and 1991 and queries were raised concerning the strength of the stimulus to imports likely to result from the new economic measures.

Members welcomed the introduction by Japan of a number of trade liberalization measures during the past two years, partly in response to undertakings announced prior to the last TPRM review. Tariffs had been suspended or reduced on a number of industrial products. Some import quotas, including those affecting beef, fresh oranges and orange juice, had been terminated; in some cases, tariffication of such quotas had led to increased rates of duty. The easing of certain non-tariff measures and the revision of direct investment procedures was also welcomed.

Concerns

Members noted, however, that the recent tariff cuts, concentrated on low-duty items, had increased tariff dispersion and escalation. They emphasized the economic benefits to Japan of greater tariff rationalization and abolition of non-ad valorem forms of tariffs. Tariff peaks remained on significant sectors of interest to many members, but particularly to developing countries. Seasonal tariffs were an important barrier to imports of certain agricultural products, including bananas.
The uneven application of tariffs on similar goods in areas like lumber appeared to discriminate among competing suppliers.

Members welcomed Japan's import promotion measures, including those announced in August 1992. They hoped that these measures, which appeared focused on products of interest to major trading partners, would be expanded to cover products of interest to a wider range of exporting countries. Others called attention to the potential export-stimulating effects of financial incentives for the promotion of imports. Import stimulation should be regarded as a second-best alternative to trade liberalization.

Participants remarked on the uneven structure of assistance between manufacturing and agricultural activities, such as cereals, dairying, beef and sugar. Significant gains to Japanese consumers, as well as the economy generally, could result from improved resource allocation by reduced agricultural support. It was noted that domestic marketing arrangements, underpinned by high tariffs, tariff quotas, import quotas, State trading import monopolies, sanitary/phytosanitary and quarantine regulations, raised consumer prices for food in Japan several times above international levels. Members also referred to Japan's failure, so far, to implement fully the GATT panel recommendations regarding certain agricultural items, especially dairy products and starch. Some participants questioned the need for Japan to maintain agricultural protection for food security reasons, given stable supplies from overseas.

Members recognized that voluntary export-restraint agreements necessarily involved both exporting and importing partners. However, the continuing persistent use of VERs by Japan in certain sensitive areas could lead to diversion of trade into third markets and erode confidence in the multilateral trading system.

Many members noted that, although Japan had continuously expressed its support for the m.f.n. principle, its readiness to respond to external pressures from major trading partners by entering bilateral solutions tended to undermine this commitment. Several members commented on the damaging effects for third parties, and for the multilateral system, of arrangements such as those recently negotiated with the U.S. on semi-conductors and auto components, or the new consensus on automobiles with the EC.

**Japan's reply**

In reply, the representative of Japan reiterated Japan's full commitment to the GATT system and to an early, successful conclusion of the Uruguay Round. Concerning specific issues raised by delegations, he said that measures resulting from bilateral talks with Japan's trading partners were always applied on an m.f.n. basis; this applied to all such measures except for VERs. The voluntary import target for auto-parts announced by Japanese car manufacturers was part of a plan aimed at promoting procurement from all countries. In the US-Japan semiconductor agreement there was no discriminatory treatment.

Japan was not a member of any regional or preferential agreements. It was concerned about the trend towards regional economic integration and the risks which closed regional arrangements could represent for the multilateral trading system. Japan believed that the establishment of a special review mechanism for regional arrangements should be considered within GATT.

Non-trade concerns should be fully taken into account, along with economic efficiency, in considering agricultural trade policy. Japanese budgetary support for agriculture had fallen at a time when other major traders had increased their outlays substantially. However, Japan considered the concept of food security as very important for all countries. It must be recognized that Japan had difficulties concerning comprehensive tariffication in agriculture in the Uruguay Round and expected understanding of its position from other participants.

**Conclusions**

Members of the Council emphasized the responsibility borne by Japan, as a major beneficiary from the multilateral trading system, for ensuring that the system remained open, liberal and effective. They recognized that steps had been taken by Japan in the past two years to open its markets in some areas. The need to ensure that all parties benefit from such market-opening measures was stressed. In this connection, members recognized the considerable importance of a speedy, successful conclusion to the Uruguay Round, noted Japan's clearly stated commitment to the Round, and urged Japan to review its position in agriculture, to enable it to take a more determined leadership role in guiding the overall negotiation forward in its critical concluding phase.

Members also emphasized the need for Japan to make further progress in reducing non-tariff barriers, including the liberalization and acceleration of administrative procedures in such fields as standards, testing and certification, and sanitary/phytosanitary restrictions. They looked forward to greater clarity and transparency in administrative guidance and stronger administration of antimonopoly and restrictive business practices legislation. It was emphasized that all trade measures, including bilateral arrangements, taken or promoted by the Government or industry should be on an m.f.n. basis and in keeping with GATT rules, in order to support the credibility of and confidence in the multilateral trading system.
Accessions
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ever, a general desire to establish the working party.

Ambassador B.K Zutshi said that there was a consensus that the Working Party on China's Status as a Contracting Party should expeditiously continue its work, taking account of the pace of China's economic reforms, and report to the Council as soon as possible. A Working Party on Chinese Taipei should be established. The Council should give full consideration to all views expressed, in particular that the Council should examine the China Working Party report and adopt the Protocol for the PRC before examining the report and adopting the Protocol on Chinese Taipei, while noting that the working party reports should be examined independently.

Ecuador's Ambassador Eduardo Santos said that international trade had become an indispensable element for growth and development. It was with this belief that Ecuador had undertaken comprehensive economic and trade reforms, and had decided to apply for accession to the General Agreement. It stressed that it had a developing economy, and that external debt remained a serious problem.

Ecuador is among the last Latin American countries to have applied for GATT membership. Since the launching of the Uruguay Round, five Latin American countries have joined the GATT: Bolivia, Costa Rica, Venezuela, El Salvador and Guatemala.

The granting of observer status to Latvia, Lithuania and Kazakhstan brings the number of former USSR states which have become GATT observers to nine. The Russian Federation took over the seat of the former USSR at the beginning of this year, while Estonia, Moldova and Tukmenistan became GATT observers in June and Armenia and the Ukraine in July (see Focus No. 93).

Russian Federation reports on economic reforms

The Russian Federation confirmed its desire to be integrated into the multilateral trading system and become a contracting party to GATT in due course. It noted that it had been participating in the GATT as observer for more than two years now, as part of the former Soviet Union and at the beginning of the year as an independent state. It reported that it had been implementing a large-scale programme of transition to a market economy, and that the most important results so far had been:
- comprehensive price liberalization;
- sizeable cuts in state subsidies, military spending and budget-financed investment;
- 18,000 enterprises in retail trade privatized and intensive privatization of large industrial enterprises started;
- the multiple exchange rate system replaced by a single market rate for the rouble for all current transactions;
- non-tariff measures substantially reduced, and customs tariffs gradually becoming the most important instrument of regulation; and
- a new taxation system under development as well as measures and legislation to promote foreign direct investment, which would enjoy national treatment.

"Unfortunately, opportunities for development and conflict tend to go together, especially at times of such profound reforms encompassing every single aspect of economic and social life," the Russian Federation said. It pointed out that during the first half of 1992, industrial production had declined by 15% while prices had increased nearly ten times.

The Russian Federation stressed that in foreign trade, the basic premise was encouraging competition rather than erecting defences against foreign suppliers. However, it said some protection would be needed before Russian producers could become internationally competitive. It added that major laws on a customs code and tariffs were expected to be adopted by the Parliament in the autumn. Work on a permanent tariff system should be completed by the end of the year.