
Adoption of the agenda

2. The Surveillance Body adopted the agenda proposed in the convening airgram GATT/AIR/3191.

Item (A): Standstill

(I) Examination of standstill notifications (MTN.SB/SN/- series) submitted in accordance with the agreed procedures (MTN.TNC/W/10/Rev.1)

3. The Chairman noted that the agreed procedures provided for the Surveillance Body to transmit a record of the proceedings relating to standstill notifications to the next meeting of the TNC. The record would also be transmitted to the GNG for information.

4. The Body examined one new notification on standstill, concerning increases in Italy's internal taxes on coffee, cocoa and their products. The record of the Body's examination of this notification, drawn up in accordance with paragraph 3 of the agreed procedures, is annexed.

(II) Consideration of statements by participants concerning other aspects of the standstill commitment

"Early warning"

5. The representative of the United States said that his country was closely monitoring the negotiations between the European Communities and Japan concerning the sale of Japanese automobiles in the Community. He asked if any information on the negotiations could be provided.

6. The representative of the European Communities replied that he had no news on the matter at hand.
Item (B): Rollback

(I) Consideration of statements concerning the rollback commitment in the light of the agreed procedures (MTN.TNC/W/10/Rev.1)

7. The Chairman recalled that the situation on implementation of the rollback commitment as at the end of last year had been summarized in the Chairman's report to the Ministerial meeting in Brussels (MTN.SB/14). Since then, the Surveillance Body received two communications from Colombia on its autonomous trade liberalization measures (L/6868 and L/6869). The communications were originally made in pursuance of Paragraph 3 of the 1979 Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance, and Paragraph 3 of the Declaration on Trade Measures taken for Balance-of-Payments Purposes.

8. The representative of Colombia said that the communications had been made through regular notifying channels of the GATT. These measures represented the continued effort of his country since 1986 to make autonomous trade liberalization. All decrees concerned were contained in the notified documents. His country would shortly be notifying to the GATT another decree of June 1991 to rationalize tariffs and reduce duties on many products.

9. The representative of the United States said that the United States Congress had recently extended the fast track authority. This demonstrated his country's commitment to the strengthening of multilateral trading system.

10. The representative of New Zealand reminded the Surveillance Body that the proposal on rollback which his delegation had made in previous meetings of the Body was still in play. The proposal called for the establishment of programmes before the end of the Uruguay Round to eliminate all measures which had been deemed, under the GATT dispute settlement system to be inconsistent with obligations under the GATT. Because of the uncertainty about when the Uruguay Round would end, his delegation was not seeking at this juncture to push its initiative to a final conclusion, but intended to bring up the issue again for detailed consideration as soon as it was possible to do so, hopefully before the end of this year.

11. The representative of Australia recalled that in 1989 his delegation had drawn the attention of the Body to certain autonomous trade liberalization measures taken by the Australian Government (MTN.SB/W/7). In a similar vein, he drew attention of the Body to the Australian notification to the GATT (L/6836) concerning further liberalization steps announced in March 1991. This was further evidence of Australia's commitment to trade liberalization.
Item C: Other business, including review of the situation in the context of the meeting of the TNC in December and consideration of the Chairman's report to the TNC

12. The Chairman recalled that at the meeting of the TNC of 26 February 1991, the Chairman of the TNC had stated that the standstill and rollback commitments in the Punta del Este Declaration remained valid until the end of the negotiations, and the TNC had agreed with the Chairman's statement. According to the agreed procedures, the TNC was expected to carry out, at least every six months, a periodic evaluation of the implementation of the standstill and rollback commitments on the basis of the records and reports transmitted to it by the Surveillance Body. The Chairman said that he would make a brief report on the current situation at the next TNC meeting scheduled to be held in the week of 29 July.

13. The Chairman suggested that the next meeting of the Surveillance Body be tentatively set for 16 October 1991. The date could be changed if circumstances so required. The Surveillance Body so agreed.
ANNEX

Examination of standstill notifications (MTN.SB/SN/- series) submitted in accordance with the agreed procedures (MTN.TNC/W/10/Rev.1)

New notifications on standstill

1. The Chairman drew attention to the latest list of notifications on standstill (MTN.SB/W/3/Rev.11). Since the last meeting one new notification had been received from a group of Latin American and Caribbean countries (list including Mexico) with respect to Italy's measures to increase selective internal taxes on coffee, cocoa and their products (MTN.SB/SN/22/Rev.1).

   **Italy: increase in selective internal taxes on coffee, cocoa and their products (MTN.SB/SN/22/Rev.1).**

2. The representative of Colombia, on behalf of the countries which had jointly made the notification, but without prejudice to statements to be made individually said that by a Decree of the Council of Ministers dated 21 December 1990 and published in the Official Gazette of 31 December 1990, the Government of Italy had increased the consumption tax on coffee and cocoa. The measure had entered into force on 1 January 1991, and was of general application for all countries exporting those products. The products concerned by this measure were listed in Annex 2 of the notification. The increase amounted to 400 per cent in the case of coffee and 700 per cent in the case of cocoa. These taxes had an ad valorem equivalent of 61.5 per cent for raw coffee and 58.5 per cent for cocoa beans.

3. At the end of the Tokyo Round, in 1979, some EEC member countries had made statements on their policy with respect to the application of internal taxes on tropical products (document MTN/TP(Secret)/2/Rev.3). In the case of Italy, the statement read: "The Government of Italy, underlining the link with current economic policy in the present situation of that country, indicates that it will take this problem into consideration in a sympathetic manner." In the GATT Ministerial Declaration on the Uruguay Round in 1986, with regard to standstill, member countries undertook *inter alia*: "... not to take any trade-restrictive or distorting measure in the legitimate exercise of [their] GATT rights, that would go beyond that which is necessary to remedy specific situations as provided for in the General Agreement ...".
4. With regard to tropical products, the Ministerial Declaration also established that "negotiations shall aim at the fullest liberalization of trade in tropical products, including in their processed and semi-processed forms, and shall cover both tariff and all non-tariff measures affecting trade in these products. The CONTRACTING PARTIES recognize the importance of trade in tropical products to a large number of less-developed contracting parties and agree that negotiations in this area shall receive special attention ...".

5. Bearing in mind that Italy produced neither coffee nor cocoa, the taxes in question were a direct restriction on imports of these tropical products originating in developing countries. Consequently, the excessive increase in selective taxes on coffee and coffee products and cocoa and cocoa products constituted a breach of the standstill commitment of the Punta del Este Declaration entered into by all GATT member countries. In addition, this measure was not in keeping with the agreed negotiating objectives of the Negotiating Group on Tropical Products as set out in the Ministerial Declaration.

6. As he had already stated at the Committee on Trade and Development, the measure was contrary to Article XXXVII of the General Agreement. In the light of the EC's proposal of March 1990 for tropical products and the possibility of negotiating concessions with respect to consumer taxes before 1992, it was clear that the Italian measure on coffee and cocoa would improve the negotiating position of the European Community in violation of paragraph 3 of the standstill commitment. The representative of Colombia concluded by asking the European Community whether it would maintain its proposal for the elimination of internal taxes on tropical products.

7. The representative of the European Communities stressed that these specific taxes had not been changed in Italy since 1973 in the case of coffee and since 1970 in the case of cocoa. In other words, these taxes had remained at the same level for about 20 years. The Italian Government had re-evaluated the value of the taxes in Italian lire to bring them into conformity with the increase in the cost of living. In fact, the increase was less than the rise in the cost of living; internal taxes on coffee and cocoa were increased by threefold and sixfold, respectively, but they could have been increased by six and eight times if Italy had kept them in step with the rising cost of living. The consumption of these products in Italy, particularly coffee, was totally inelastic to slight changes in prices. The incidence of tax increase on coffee represented only 15 lire, equivalent to about one Swiss centime, out of the price of 800 lire for a cup of coffee in cafés. The consumption of coffee would not be affected by an increase of tax of this extent. The Community was ready to consult
intensively with any contracting parties which encountered difficulties as a result of the increase in taxes on coffee and cocoa.

8. The representatives of Brazil, Costa Rica, El Salvador, Honduras, Mexico, Peru and Venezuela supported the statement made by the representative of Colombia. They expressed their concern about the effects of the measure on their exports to Italy and on the Uruguay Round negotiations.

9. The representative of Peru said that while an increase of one Swiss centime for a cup of coffee might seem unimportant, it nevertheless represented a barrier to trade in the light of its exports of coffee of several million dollars. The offer made by the EC with regard to tropical products was largely related to tariff reductions on coffee and cocoa. The Italian measures had an impact on trade and called into question the offer made by the EC.

11. The representative of Honduras asked the EC whether the increase in internal taxes according to the general rules of price adjustments had been carried out for only coffee and cocoa, which were not produced in Italy, or for other products as well. He pointed out that the notification gave statistical evidence to show that the ad valorem incidence had risen substantially for both coffee and cocoa, and asked the EC to substantiate its arguments by concrete data. In the Uruguay Round negotiations on tropical products, the EC made an offer to decrease or eliminate selective consumer taxes if it were demonstrated that the decrease of taxes would increase consumption of the products concerned. It could be demonstrated that the price-elasticity of demand for coffee in Italy was higher than other elasticities in the EC. For example, the elasticity was 0.20 in Germany, 0.30 in France, 0.31 in Belgium, and 0.32 in Italy. In Italy, there was a high selectivity in the use of certain types of coffee, and this made the price-elasticity of demand higher. Moreover, the Italian measure was incompatible with the EC Commission's decision to harmonize indirect taxes by 1992. It was hoped that a tax on coffee would be placed in the range of 4 to 9 per cent. With a lower rate of tax, coffee consumption would have increased. Therefore, the Italian measure was not only contrary to the interests of Latin American countries, but also contrary to the interests of the EC itself in its task of fiscal harmonization.

12. The representative of Venezuela, pointing out that its exports of coffee worth about $19 million in 1990 had been affected by the Italian measure, hoped that Italy would revoke the measure.

13. The representative of Australia said that his delegation had some sympathy for the points that had been raised by participants in their notification and at this meeting. The Italian measure raised a number of prima facie concerns over the status of the standstill commitment.
14. The representative of Argentina said that being a net importer of coffee and cocoa, his country was not affected by the Italian measure in a strict sense. However, the measure affected the multilateral trading system and created legitimate concerns about the credibility of the system. It was difficult to accept this kind of attitude.

15. The representative of Colombia said that consumer prices of coffee had increased by 20 per cent since the measure had been taken. This might have had a negative impact on the sale of coffee. However, the EEC argument that an impact on consumption should be established was not valid. When tariff reductions or bindings were negotiated, their effects on consumption were not always a key factor for the negotiations.

16. The representative of Uruguay shared the view of Colombia and stressed that one should not discuss whether consumption of coffee had decreased or not as a result of the measure, but rather discuss the question of non-fulfilment of the standstill commitment.

17. The representative of the European Communities noted that some might see a matter of principle in this question. This could be discussed, for the issue was related to internal taxes. He did not have statistics on price-elasticities, but could only speak from his own experiences. Prices of a cup of coffee and taxes on it in the world may be easily compared. The Italian taxes were raised not only for coffee and cocoa, but also other products. The measure was not taken in an isolated manner, but rather as a financial measure applicable to those products on which taxes had not been raised for a long time. He did not think that the measure would affect the EC's negotiating position in the Uruguay Round, as its offers were still on the table and the EC would not be using the measure to improve its negotiating position. The measure did not change the EC's negotiating position. He repeated that consumers would not react to a difference of one Swiss centime. If any country could demonstrate that its trade was prejudiced by the measure, the Community would be ready to consult fully.

18. The Chairman said that the statements made at this meeting would be reported to the TNC so that the TNC could consider the matter. He noted that the EC offered to consult with any party which considered that a damage to its trade had resulted from the measure concerned.

19. The representative of Colombia reserved the right to revert to the issue at the TNC meeting. If consultations with the EC did not result in a satisfactory solution, he would hope that the rollback commitment would be applicable to the measure.

Previous notifications on standstill

20. There was no statement under this item.