

EXECUTIVE SECRETARIAT

ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OCA				
14	D/PAO				
15	D/PERS				
16	D/Ex Staff				
17	NIO/ECON	X			
18	D/OGI//DI		X		
19					
20	<i>ER file</i>				
21					
22					

SUSPENSE _____

Date

Remarks

ER 88-4131X

HS
Executive Secretary

28 Oct '88

Date

3637 (10-81)

**THE WHITE HOUSE
 WASHINGTON**

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10/28/88 **Number:** 490,778 **Due By:** _____

Subject: EPC Meeting on the Uruguay Round

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Carlucci	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Crippen	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Bauer	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Dawson (For WH Staffing)	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	DPC	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	EPC	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	NSC	<input checked="" type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Attached is the Agenda and Paper for the October 31 Council Meeting at 2:00 p.m. in the Roosevelt Room

RETURN TO:

Nancy J. Risque
 Cabinet Secretary
 456-2823
 (Ground Floor, West Wing)

Associate Director
 Office of Cabinet Affairs
 456-2800
 (Room 235, OE08)



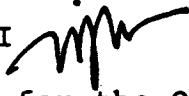
R 504-IR

THE WHITE HOUSE

WASHINGTON

October 27, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: WILLIAM J. MARONI 

SUBJECT: Agenda and Paper for the October 31 Council Meeting

The Economic Policy Council will meet on Monday, October 31, 1988 at 2:00 p.m. in the Roosevelt Room. The single agenda item is a presentation by Ambassador Clayton Yeutter on current preparations for the Mid-term Review of the Uruguay Round trade negotiations. The Mid-term Review meeting, which is scheduled for December 5 - 8 in Montreal, Canada, is a ministerial-level negotiating session to assess the progress on specific issues and to seek continued agreements.

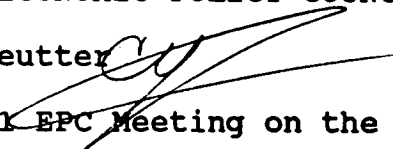
Ambassador Yeutter will report on the results of the recent trade ministers meeting in Islamabad, Pakistan and will explain: 1) controversial issues likely to require high-level action; 2) provisional agreements likely to result from the Mid-term Review meeting in December; 3) negotiating mandate for all issues from 1989 - 1990; and 4) reports on the progress of the negotiating groups. An outline of Ambassador Yeutter's presentation is attached.

The Mid-term Review meeting will be the last major international economic event in the Reagan Administration and the conclusion of the Uruguay Round in 1990 will be one of the most important accomplishments of the next administration. Between 1985 and 1987 the Economic Policy Council met five times on the subject of the Uruguay Round and the preparations for the September 1986 Ministerial meeting in Punta del Este. The last time the Council discussed U.S. objectives for the Uruguay Round was in July 1987. Because most of the progress on these negotiations has occurred since that time and several new members have joined the Council in recent months, I have provided the attached background papers. These materials, which are a compilation of reports from the Department of Commerce's "Uruguay Round Update" publication, explain the history of the Round, the objectives of the 15 negotiating groups, and the progress that had been made on each issue prior to the ministerial meeting in Islamabad at the beginning of this month.

attachments

October 27, 1988

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: Clayton Yeutter 

SUBJECT: October 31 EPC Meeting on the Uruguay Round

At Monday's EPC meeting I plan to review with you our preparations for the December 5-8 Montreal Ministerial Mid-Term Review of the Uruguay Round negotiations. I have attached for your use an outline of the key issues we will be addressing at Montreal as well as a Commerce Department summary of the activities of each negotiating group.

Attachment

**PRESENTATIONAL OUTLINE ON THE URUGUAY ROUND
KEY ISSUES FOR THE MID-REVIEW
MEETING OF TRADE MINISTERS AT MONTREAL
DECEMBER 5-8, 1988**

I. Introduction

- o Setting for meeting of the Trade Negotiations Committee
Results of the informal meeting of Ministers in Pakistan
U.S. objectives for a mid-term package

II. Controversial Issues Requiring Action at the Political Level

- o Provisional agreements for early implementation
 - Agriculture
 - Tropical Products
- o Agreement on how the negotiations should proceed
 - Intellectual Property
 - Market Access (Textiles and Tariffs)
 - Services
 - Trade-related Investment Measures

III. The Montreal Package

- o Provisional Agreements
 - Functioning of the GATT System (FOGS)/Dispute Settlement
 - Agriculture
 - Short term agreement and long term commitment
 - (Review of EC and CAIRNS Positions)
 - Scenario for reaching a compromise
 - Tropical Products
 - Only item given priority at Punta Del Este
 - Prospects for reaching early agreements
 - Reciprocal vs. unilateral concessions
 - LDC expectations

- o **Agreement on how negotiations to 1990 should proceed**
 - **Intellectual Property**
 - Whether MTR can agree to developed countries' objective to begin substantive negotiations on standards and enforcement in a comprehensive agreement
 - Degrees of LDC opposition
 - **Tariffs**
 - **Non-tariff Measures**
 - **Textiles**
 - **Services**
 - Agreement to key obligations for the framework
 - Timetable for concluding the agreement/procedures for agreeing on coverage and liberalization
 - **Trade Related Investment Measures**
 - Agreement to negotiate eventual disciplines
 - Avoid limitations on the scope of the negotiation
- o **Reports and progress in other negotiating groups**
 - **Market Access: Natural Resources**
 - **GATT Articles**
 - **Safeguards**
 - **MTN Agreements**
- o **Standstill and Rollback**
 - **Political Commitment -- need to reaffirm**
 - **Attempt by some LDCs to make contractual**

URUGUAY ROUND

PREPARATIONS FOR MID-TERM REVIEW, DECEMBER 5 - 8, 1988

INTRODUCTION

In September 1986, trade ministers from over 92 countries gathered at Punta del Este, Uruguay; their goal--to launch a new round of global trade talks. After a week of intensive discussions, a consensus was reached, and on September 20, the ministers adopted the Punta del Este Declaration, launching the Uruguay Round of multilateral trade negotiations.

The Ministerial Declaration adopted at Punta del Este, while considered a single political undertaking, is divided into two sections. The first covers negotiations on trade in goods while the second covers trade in services.

In the area of trade in goods, the ministers agreed that the negotiations would address the following areas: tariffs, non-tariff measures, tropical products, natural resource-based products, textiles and clothing, agriculture, subsidies, safeguards, trade-related aspects of intellectual property rights, including trade in counterfeit goods, and trade-related investment measures. They also agreed to conduct a review of the articles of the GATT, the dispute settlement mechanism, the codes negotiated during the Tokyo Round, as well as the overall functioning of the GATT system itself.

In the area of services, the Declaration envisages the establishment of a multilateral framework of principles and rules for trade in services, including the elaboration of specific rules for individual sectors.

The Uruguay Round is the eighth such negotiating "round" held under the auspices of the General Agreement on Tariffs and Trade (GATT) since its creation in 1948. In the GATT context, a round is a series of continuing negotiations which have lasted anywhere from several months to several years. The first round actually led to the establishment of the GATT while the last negotiation, the Tokyo Round, concluded in 1979.

While the Uruguay Round was officially launched in September 1986, the actual negotiations did not get underway until the following February. Since that time, the various negotiating groups have been meeting on a regular basis in Geneva with each group establishing its own schedule. The negotiators have been focusing on specific proposals presented in each negotiating group since January 1988. Most U.S. negotiating teams are led by officials from the Office of the United States Trade Representative (USTR), although certain teams are headed by officials from the Departments of Treasury, State, and Commerce. Team members include representatives from these agencies as well as other departments such as Labor and Justice. Formal sessions of the negotiating groups are open to all 96 GATT members plus certain observers and provide a forum in which all views can be heard. Informal meetings with smaller groups of countries are also held to allow a more frank and in-depth discussion of the issues at hand.

Each negotiating group addresses a particular aspect of international trade. While the subjects are all related to one another, for practical and sometimes political reasons, GATT members decided to separate the issues into different categories for the negotiations. All of the negotiating groups come under the umbrella of the Group on Negotiations on Goods (GNG), with the exception of the group dealing with services trade, which comes under the Group on Negotiations on Services (GNS). The Trade Negotiating Committee (TNC), which meets two or three times per year, oversees both the goods and services negotiations and reviews issues that affect the negotiations as a whole. Another group established to oversee general trade issues is the Standstill/Rollback Surveillance Body. At the launching of the negotiations, GATT members made a commitment not to take new trade restrictive actions (standstill) and to try to eliminate those already in place that violate the GATT (rollback). The Surveillance Body is essentially a forum for bringing to the attention of others, practices which a country believes violate this commitment.

While the Uruguay Round negotiations are scheduled to last through 1990, it is hoped that agreements can be reached earlier in certain negotiating groups. A mid-term review by trade ministers of the GATT contracting parties will be held in Montreal, Canada December 5-8, 1988 to assess progress and announce any interim results of the negotiations.

URUGUAY ROUND NEGOTIATING GROUPS

Traditional Trade Issues and Issues Left Unresolved in Past Negotiations

Tariffs:

While not the major problem of international trade today, tariffs still impede the flow of trade around the world. Developing countries, in particular, maintain very high tariff rates on a broad range of products. High tariff rates also exist on certain products in the developed countries. The objective of this negotiating group is to reduce and where possible eliminate these tariffs.

The primary debate in the Tariffs Negotiating Group has centered on the selection of procedures for the negotiations. Throughout this debate, the United States has advocated a request/offer approach (whereby tariffs on individual items are reduced only by specific requests or offers), believing that it would foster the broadest participation and best embrace U.S. priorities. Virtually every other country, however, has advocated instead using formula cuts (whereby tariffs are reduced across the board by an agreed formula).

A group of less developed countries (LDCs) and small developed countries recently introduced a proposal which has become the focal point for the tariff discussions. This proposal calls for formula tariff cuts, broad tariff bindings (ceilings above which tariffs cannot be raised) by all participants, and special and differential treatment for LDCs. Various elements of this approach have attracted wide support from GATT participants. The United States opposes this proposal due to the emphasis it places on a formula approach and its ambiguity regarding the extent of LDC participation in reducing tariff levels.

For the Mid-term Review, the United States is seeking to shift the focus in the negotiating group away from the question of methodology, preferring instead to concentrate on the end results of the negotiations, while allowing each participant to use the negotiating technique of its choice. If successful, this plan will preserve U.S. flexibility to use a request/offer methodology and encourage the broadest LDC participation.

Non-tariff Measures (NTMs):

Less traditional barriers to trade, such as quantitative restrictions on imports, have become a significant problem in today's trading system. This group is seeking ways to reduce and eliminate the use of such protective trade measures.

In the Non-Tariff Measures Negotiating Group, GATT countries aim to reduce or eliminate non-tariff barriers to trade which are not

adequately covered by the GATT agreement or the GATT non-tariff barrier codes. Much of the discussion in the NTMs Negotiating Group has involved examination of three possible negotiating techniques. One approach calls for the development of multilateral rules similar to existing GATT non-tariff barrier codes, such as the Standards Code. Preshipment inspection requirements and rules of origin are among several items that could be addressed by this kind of approach. A formula, or across the board reductions method has been proposed by Australia and supported by several small developed and developing countries. This approach is aimed at the phase-out of quantifiable NTMs such as quantitative restrictions and price-based measures. Favored by the United States, the European Community (EC), and Japan, is a request/offer procedure whereby countries would exchange concessions on specific NTMs.

In early July, the United States submitted an initial list to the group indicating the wide range of country and product-specific NTMs affecting U.S. trade. The EC also submitted an initial list and Japan suggested several measures for multilateral consideration. The United States will add to its list, after consulting with private sector advisors and gathering more information from overseas posts. Formal request lists are expected to be presented to the negotiating group next spring. For the Mid-term Review, the U.S. goal is to reach agreement on procedures and basic principles which will govern these negotiations.

Natural Resources:

Because of the special characteristics of trade in natural resource products, such as non-ferrous metals and minerals, forest products, and fish, GATT members decided to establish a separate negotiating group to address trade barriers in this particular sector. The United States has also proposed that this group seek to improve GATT rules to deal with such problems as government ownership of resources, government subsidies, dual pricing practices and export restrictions associated with natural resource trade, including energy resource products.

These Natural Resource-Based Products (NRBP) negotiations are striving to remove trade barriers in areas such as forest products, fish, non-ferrous minerals, and energy-based products. Early discussions in this group were characterized by a lack of agreement on the issues to be discussed and negotiating procedures. More recently, the group has made modest progress in at least discussing a wide range of NRBP barriers and agreeing to a limited work program for the GATT Secretariat. Although this group has yet to agree on areas for actual negotiation, prospects appear good for continued useful discussions of problems in the NRBP area.

The United States has proposed that the NRBP group focus on practices that generally confer an artificial trade advantage to natural resource-rich countries, i.e., natural resource subsidies, two-tier pricing, restrictive government ownership practices, and related export controls. The United States believes that other areas, principally market access or import issues, can be adequately dealt with in other negotiating groups such as the Tariffs, Non-Tariff Measures, and Subsidies groups. The United States has also suggested that the NRBP group discuss energy-based products, e.g., petrochemicals, oil and gas, in addition to the traditional GATT-recognized NRBP areas of fish, forestry, non-ferrous minerals and metals.

Although initially favoring a wider scope of issues for NRBP negotiations than suggested by the United States, the EC has more recently argued that negotiations be restricted to the three traditional NRBP areas. However, a recent EC paper leaves room for discussion of general problems in natural resources. The EC wants to use the NRBP group to discuss access to fishing grounds--a position that is opposed by most other members of the group.

Tropical Products:

In a similar way, a number of the less developed GATT member countries believed that trade in tropical products presented special problems that should be dealt with in a separate negotiating group. Negotiators in this area are working to eliminate both tariff and non-tariff barriers to trade in tropical products, including fruits and vegetables as well as certain processed products.

Much of the work to date in this group has focused on gathering information about trade in tropical products. Although this has been officially completed, many developed countries have reservations outstanding due to the dearth of trade information supplied by the less developed countries. The group has moved on to take up the discussion of appropriate negotiating procedures. These discussions are continuing, with particular emphasis by the LDCs on obtaining an agreed common basis for negotiations. Because of the importance of trade in tropical products to the developing nations, the LDCs would like to see some agreement in this area by the Mid-term Review.

A number of proposals have been submitted, including the U.S. proposal to eliminate all trade barriers in agricultural tropical products in conjunction with the U.S. proposal in the Agriculture Negotiating Group (see page 6).

Textiles:

GATT members agreed to establish a separate negotiating group on textiles and clothing because of the special sensitivity of this

sector. Historically, trade in textile products has been organized under a special trade arrangement established by the GATT known as the Multifiber Arrangement on International Trade in Textiles (MFA). This negotiating group has been examining the role of the MFA in world trade as well as trade practices in textiles by individual countries.

The Textiles and Clothing Negotiating Group has progressed beyond an information gathering stage and into discussions on techniques and procedures. These discussions are aimed at fulfilling the negotiating group's mandate toward promoting the eventual integration of world trade in textiles and apparel into the GATT. This would be based on strengthened GATT rules, thereby contributing to the objective of further liberalization of trade.

Prominent questions before the group include the Multifiber Arrangement (a multilateral agreement covering trade in textiles) and its status within the GATT framework as well as various restrictive import practices that diminish international textile and apparel trade. Proposals suggesting a number of techniques and procedures have been offered and will be discussed in the upcoming meetings prior to the Mid-term Review. However, substantive negotiations before the December meeting are unlikely.

Agriculture:

The GATT, as it is currently written, has major loopholes in the rules governing international trade in agriculture. At the same time, domestic farm support policies and advances in farming technology have caused large increases in production and intensified international competition. All of this has led to an increasing subsidization of farm exports and protection of domestic markets from foreign competition through the use of import restrictions. The goal of this group is to create GATT rules that will curtail and eventually eliminate the use of these trade distorting practices.

The Negotiating Group on Agriculture is attempting to achieve greater liberalization of trade in agriculture. Toward this end, the United States has tabled a bold proposal to phase out, over a ten year period, all trade distorting policies including domestic subsidies and market access barriers. Several GATT members, including the EC, Canada, Japan, the Cairns group (a group of non-subsidizing agricultural exporters including Australia and New Zealand) and the Nordic countries (Sweden, Norway and Finland), have also submitted proposals. The EC proposal, in particular, differs significantly from that of the United States in its emphasis on short-term measures to reduce supply, such as price disciplines on cereals and quantity reductions on sugar, rather than on fundamental long-term agricultural reform as advocated by the United States.

In an effort to gain broader support for its proposal, the United States has submitted several additional papers, including one on the harmonization of phytosanitary standards, an elaboration of its proposal to address LDC concerns, a food security paper, and a paper discussing the determination of an aggregate measure of trade distorting policies.

Subsidies and Countervailing Measures (S/CM):

Without prohibiting subsidies, the GATT directs governments to seek to avoid granting them in a way which harms the interests of other countries. This weak rule and the subjective standard for determining harm have proven ineffective in limiting the use of trade-distorting subsidies. Moreover, as mentioned above, the GATT has largely avoided establishing rules on agricultural subsidies. This group is seeking ways to improve the current GATT rules to better address the problems created by government subsidies.

This negotiating group is grappling with problems that have long been a major source of friction within the international trading system. Its mandate relates directly to some of the more controversial issues before the Agriculture, Natural Resource-Based Products, and Dispute Settlement Negotiating Groups, to name only three. The long-term aim of the United States is to encourage the predominance of market forces in international trade and to minimize government interference in trade flows. We have therefore been a leading proponent of strengthened international subsidies rules.

The Subsidies Code negotiated in the last GATT Round was an important first step in strengthening international subsidies disciplines, but it also "papered over" a number of fundamental policy differences in the subsidies area. The code suffers both from the fact that there is no real consensus as to the meaning of certain key subsidies rules and from the lack of an effective dispute settlement mechanism. In this group, the United States has called for comprehensive and substantive reform of both the subsidies rules and the means by which they are to be enforced. In June, we submitted an extensive paper proposing a number of new disciplines. The United States faces many obstacles, however, as the predominant view among other countries is that countervailing measures (duties levied on an imported good to offset subsidies to producers or exporters of that good in the exporting country), and not subsidies, should be the leading candidate for increased discipline. This view is held both by developing countries, interested in using subsidies to further their economic development, and by a number of developed countries which view subsidies as a "safety net" to ease industries and regions through economic transition. Thus, the group must reconcile some serious issues before substantive negotiations can proceed. Significant progress before the Mid-term Review is unlikely.

Safeguards:

The GATT also recognizes the need for governments to protect domestic industries temporarily from surges in imports. Rules are laid out which place restraints on the use of such temporary import restraints, known as safeguard measures. However, as international competition has become more fierce, governments have resorted to taking safeguard actions that are outside the scope to the GATT rules. Negotiators in this group have attempted to improve the GATT's safeguard provisions in order to deal more effectively with the broad scope to import protection actions taken by governments today.

The Safeguards Negotiating Group continues to try to develop a comprehensive safeguards agreement that would codify and discipline measures that countries take to protect certain domestic industries from injurious increases in imports. Discussions in formal meetings over the last six months have focused on the various elements of an eventual agreement: injury, duration, degressivity (progressive liberalization), compensation/retaliation, and transparency.

In addition, safeguards negotiators have debated two other important yet contentious issues. First, the group continues to be split on the question of whether safeguards should be allowed to be applied on a "selective" basis, against one or a group of countries, versus whether they must be applied in a non-discriminatory (Most-Favored-Nation) manner. In the past, some developed countries have favored the former approach, although countries' positions are still evolving. LDCs continue to advocate a strict MFN application of safeguards measures, believing that selective measures force them into undesirable bilateral arrangements.

The second major issue of contention is the question of whether the GATT should have more explicit provisions for structural adjustment measures. Switzerland, Brazil, Mexico, and Egypt have called for the inclusion of some form of structural adjustment measures within a safeguards context. The United States and certain other countries disagree with this point. Thus, it will undoubtedly remain a source of discussion in coming months. Agreement on a set of principles for a safeguards agreement will be attempted by the Mid-term Review.

MTN Agreements and Arrangements:

The last GATT negotiation, the Tokyo Round, produced seven agreements, known as codes, to reduce or eliminate specific types of non-tariff barriers to trade. Six of the codes cover barriers in the areas of import licensing, government procurement, product standards (industrial and agricultural), customs valuation, antidumping, and subsidies. The seventh establishes new rules on trade in civil aircraft. While these codes made significant progress in reducing many existing trade barriers, several years of experience have revealed that there are problems yet to be resolved. Also, new types of problems have emerged in those areas which were not addressed in the Tokyo Round. The goal of this negotiating group is to seek, where necessary, ways to improve the effectiveness and update the provisions of the Tokyo Round Codes.

This negotiating group has focused its attention on three GATT non-tariff barrier agreements (or codes): Antidumping, Standards, and Import Licensing. Government procurement and subsidies code issues are being addressed in the Government Procurement Code Committee and Subsidies Negotiating Group.

Antidumping Code: Japan and Korea, supported by a number of "exporting" countries, have proposed various modifications to the code which would make it more difficult for nations to take antidumping actions. These proposals are aimed at the United States and other countries that have strong antidumping laws and procedures. The United States and other "strong antidumping" countries have argued that the flexibility of action provided by the current code is necessary in order to allow countries to take effective antidumping actions. The United States has suggested amending the code to increase the ability of countries to take action against recidivist (repeat) dumping and diversionary practices.

Standards Code: Most countries support the efforts of the United States and others to modify the code to increase discipline over approval, inspection and testing procedures. The United States has also proposed expanding code coverage to include bilateral standards agreements and regional standards-setting bodies, and to cover processes and production methods under the code. The EC has proposed covering local and non-governmental standards setting bodies. These proposals have not yet been thoroughly discussed and may be somewhat controversial.

Import Licensing Code: The United States has proposed strengthening code rules over the use of non-automatic import licensing. A number of countries are sympathetic toward U.S. goals in this area, and a few nations have discussed ways of improving both the procedures and substance of the code. However, most countries have not supported substantial new discipline over import licensing.

GATT Articles:

GATT members set up a separate negotiating group to address various aspects of the GATT that were not specifically being dealt with elsewhere in the negotiations. The GATT Articles Group is examining GATT provisions on such issues as: 1) trade restrictive measures taken by countries for balance of payments purposes; 2) state trading practices; 3) the rights of countries in tariff renegotiations; and 4) free trade areas.

Three of the major articles are discussed below.

Article XVIII (Balance of Payments): The United States and other developed countries have expressed concern over the operation of Article XVIII. This article permits developing countries to impose quantitative trade restrictions (QRs), such as discriminatory licensing systems, normally a violation of GATT provisions, when they are confronted with balance of payments (BOP) problems. LDCs maintain such QRs for extended or indefinite periods of time. Furthermore, they usually apply such trade restrictions in a way that protects specific industries, thus tending to exacerbate the fundamental BOP problem. Therefore, the United States is seeking means to improve the operation of the BOP provisions to address these problems. LDCs, while acknowledging that QRs are not the best solution to the problems they face, argue that they have few alternatives because of their protracted balance of payments difficulties. They also argue that protectionist policies in the developed countries only make the situation worse. To date, no specific proposals have been introduced in the negotiating group.

Article XXVIII (Modification of Tariff Schedules): Article XXVIII allows a country to raise a negotiated tariff or binding if the affected countries are compensated with lower tariffs in other areas of commercial interest. A number of smaller countries have complained that the provisions of Article XXVIII do not adequately protect their interests in tariff negotiations. At present, rights are normally derived in terms of import market share. Smaller countries have suggested that criteria be expanded to give greater weight to the export significance of the trade in question. The United States is among those GATT members who believe that no significant change is necessary in Article XXVIII. It has also argued that there must be a balance between tariff rights and obligations.

Several proposals have been made to allocate additional negotiating rights to the country (or countries) for which export trade in the affected product has the greatest importance. Each proposal would relate a supplier country's exports of the product in question to some criteria such as the country's total exports, GNP, population, etc. All proposals would tend to treat smaller country trading interests more generously.

Article XVII (State Trading): Article XVII sets out guidelines to ensure that state trading entities (marketing boards, parastatals, etc.) operate in a non-discriminatory manner and base their decisions on commercial considerations. In the GATT Articles Negotiating Group, the United States has argued that these provisions are both ambiguous and ineffective. In the U.S. view, there is no clear idea among GATT members of what constitutes a state trading enterprise for purposes of Article XVII, nor what obligations governments must accept for these enterprises. Views differ as to what commercial considerations and non-discriminatory treatment mean. Related to this is the uneven fulfillment of reporting requirements to the GATT on the operation of state trading enterprises. How countertrade, such as barter trade arrangements, relates to Article XVII is another question. The United States believes that these issues must be clarified in the course of the negotiations.

Most countries have acknowledged the importance of clarifying the state trading provisions, and Chile in particular has been a strong proponent of reform of Article XVII. However, some countries have expressed concern about proposed definitions of the non-discrimination obligation and about countertrade.

New Issues

Services:

International trade in services, such as international banking, insurance, shipping and tourism, accounts for an increasing percentage of world trade. Since the GATT was originally designed to apply only to trade in goods, government practices affecting trade in services have, until now, fallen outside the GATT's jurisdiction.

The services negotiations were established to develop rules for international services transactions to reduce barriers and facilitate the liberalization of trade in services. The negotiations continue to focus on what types of disciplines are appropriate to services. Developed countries are in virtual agreement on the principles to be included in a multilateral services agreement, but differ on the procedures required to make such an agreement an instrument for liberalization. The U.S. proposal for a services framework agreement, which has been endorsed by most developed countries, develops the following concepts for an agreement: transparency, non-discrimination, national treatment, discipline on state sanctioned monopolies, discipline on subsidies, non-discriminatory accreditation procedures, and a consultation and dispute settlement mechanism. Developing countries are increasingly engaged in working toward an agreement. However, they are focusing on the inclusion of provisions relating to development, many of which the United States would oppose. For example, many LDCs are calling for

unimpeded immigration as an aspect of services liberalization. Achievement of a consensus on the outlines of a services agreement is a U.S. Mid-term Review objective.

Intellectual Property Protection:

Inadequate protection of intellectual property rights can severely distort and limit trade. Intellectual property rights includes patents on industrial processes and products, copyrights on books, and trademarks on consumer products. While certain international rules governing intellectual property rights now exist, they are inadequate to prevent abuses of these rights. Consequently, proponents of stronger protection are seeking to extend GATT rules to the intellectual property area in an effort to bolster protection and liberalize trade in the products affected by these rights.

The United States, the EC, Japan, Switzerland, and the Nordic countries have worked to build a case in this negotiating group that deficiencies in intellectual property protection have trade effects. A number of suggestions have been proposed to resolve these deficiencies. The United States has proposed a comprehensive GATT agreement which would include substantive standards for protection of patents, copyrights, trademarks, trade secrets, and semiconductor chip layout designs. Standards must be specified because existing international intellectual property conventions are silent or inadequate in many respects. In addition, the agreement would include obligations for governments to effectively enforce rights at the border and within national boundaries. Basic GATT principles, such as dispute settlement, transparency and notification, are also included.

While the negotiating group has spent much time reviewing material on standards for protection and the enforcement of rights, other issues such as the scope of the group's mandate and the form of the agreement continue to be raised. The U.S. aim for the Mid-term Review is to reach consensus on the framework for a GATT intellectual property agreement. Agreement among major developed countries on this framework is possible by December.

Investment:

Governments impose regulations and policies on investors that distort and restrict not only investment flows but the pattern and levels of trade as well. Some GATT members believe that the GATT should have rules to discipline all government investment policies that distort trade flows. Accordingly, this negotiating group is examining GATT rules to determine the extent to which they apply to investment measures, and where new rules should be developed.

Discussions in the Trade-Related Investment Measures (TRIMs) Negotiating Group have centered on two topics: the trade effects of the investment measures identified by members; and the relationship of GATT articles and principles to those TRIMs and their effects. The United States, Japan, the EC, and the Nordic countries have each made submissions that identify the TRIMs they feel should be disciplined and that also discuss GATT articles the respective countries feel are relevant. The United States and Japan have submitted the most ambitious proposals, identifying the broadest range of TRIMs. LDCs have in general been opposed to progress on this issue since they consider the control of investment to be a sovereign right, and since they consider investment measures to be indispensable tools of development.

GATT Institutional Issues

Dispute Settlement:

The GATT contains special provisions designed to help countries resolve trade disputes that arise between them. Unfortunately, in recent years, these dispute settlement provisions have often proved cumbersome or ineffective. In order to avoid changing a particular trade policy, countries have stalled or simply blocked the process. The aim of these negotiations is to develop procedures that will strengthen the dispute settlement process.

A very broad range of countries would like to see the functioning of the GATT dispute settlement mechanism strengthened and improved. One idea under consideration is a proposal to eliminate opportunities for delay in the dispute settlement process. This could include reforms to "close off" debate after a specified period on the selection of panelists and the terms of reference for each panel. A second proposal is to provide alternative avenues for resolving disputes, such as mediation and arbitration. Another idea is to increase third party rights in disputes. This could provide increased participation in panel proceedings for third parties with an interest in a case. Other proposals focus on enhanced surveillance of the dispute settlement process by the GATT Council, such as in the monitoring of the implementation of adopted panel reports. Rapid progress in this negotiating group appears likely by the Mid-term Review, given that there is considerable convergence on a number of the proposals described above.

Functioning of the GATT System (FOGS):

In an effort to strengthen the overall credibility and effectiveness of the GATT as an institution, negotiators established a separate negotiating group to examine the functioning of the GATT system. The FOGS Negotiating Group is

addressing such issues as how to increase the role of trade ministers in the GATT, what role the GATT should play in overseeing member country trade practices, and what relationship the GATT should have to other international economic organizations such as the International Monetary Fund and the World Bank.

This negotiating group was established to agree on ways to make the GATT a more effective institution. Its work to date has largely focused on three areas: 1) developing a trade policy review mechanism (TPRM) to increase GATT surveillance of member countries' trade policies and practices; 2) increasing involvement of trade ministers in GATT work; and 3) improving cooperation between the GATT and the international financial institutions (IFIs), particularly the IMF and World Bank. Given the progress made to date, agreements are expected to emerge from this negotiating group for the Mid-term Review.

The FOGS group has made the most headway so far on developing a TPRM. Almost all countries have expressed support for periodic reviews of the trade policies and practices of all GATT members. The details of these reviews are now being discussed. The United States hopes that the TPRM is an area for Mid-term Review agreement, which could be implemented in 1989.

Almost all GATT members have also endorsed the idea of greater involvement of trade ministers in GATT activities. The United States supports the establishment of a small group of trade ministers which would meet two to three times per year in an advisory capacity. Since many countries are less convinced of the need to create such a group, debate is expected to continue during the coming months.

The least progress in the FOGS group has been made on the third area of work--increased cooperation between the GATT and the international financial institutions. While the developed countries support increased contact at the staff level between the GATT and the IMF and World Bank, many developing countries have difficulties with this proposal. The LDCs would like to see more discussion in the FOGS group on the trade/debt link.

Standstill/Rollback Surveillance Body:

Standstill and rollback are political undertakings, entered into by trade ministers at the outset of the Uruguay Round, to avoid creating new trade restrictive and distorting measures that are inconsistent with the GATT (standstill), and to dismantle those in place during the course of the negotiations (rollback). The Uruguay Round Standstill/Rollback Surveillance Body, which reports to the Trade Negotiating Committee, oversees the implementation of these undertakings.

There has been much debate in the Surveillance Body over actions believed to violate standstill. In the course of the Uruguay Round, over twenty notifications have been made of actions (e.g., quantitative restrictions, tariffs, import controls and prohibitions, subsidies and government procurement practices) believed by some to violate the standstill commitment. Almost as many requests for consultations have been made on measures believed due for rollback.

While it is still difficult to point to any concrete results emerging from the work of the Surveillance Body, it now appears that pressure for action is mounting in anticipation of the Mid-term Review. Nevertheless, the Surveillance Body has been a useful vehicle for bringing high-level political attention to trade measures of particular concern. It has not replaced the GATT dispute settlement process, nor has it prohibited negotiations in other groups on measures raised in connection with either standstill or rollback.