24 May 1989

REPUBLIC OF KOREA - RESTRICTIONS ON IMPORTS OF BEEF - COMPLAINT BY NEW ZEALAND

Report of the Panel adopted on 7 November 1989
(L/6505 - 36S/234)

INTRODUCTION

1. In August 1988 New Zealand and the Republic of Korea held Article XXIII:1 consultations concerning Korea restrictions. These consultations did not lead to a mutually satisfactory solution. New Zealand therefore requested the Council to establish a panel to examine the matter (L/6354).

2. At its meeting on 22 September 1988, the Council agreed to establish a panel and authorized its Chairman to designate the chairman and members of the Panel in consultation with the parties concerned (C/M/224, item 4). Australia, Canada, the European Community and the United States each reserved their right to make a submission to the Panel.

3. The following terms of reference were agreed upon:

> "To examine, in the light of the relevant GATT provisions, the matter referred to the CONTRACTING PARTIES by New Zealand in document L/6354 and to make such findings as will assist the CONTRACTING PARTIES in making the recommendations or in giving the rulings as provided for in Article XXIII:2."

4. In consultations between the parties it was agreed that the Panel would have the same composition as the Australian/Korean Panel and the United States/Korean Panel agreed upon earlier, as follows:

Chairman: Mr. Chew Tai Soo

Members: Ms. Yvonne Choi
Mr. Piotr Freyberg

5. The Panel met with the parties on 1 December 1988 and on 16 January 1989. It received third country submissions from Australia, Canada and the United States. Their views are summarized below in paragraphs 94-105. The Panel submitted its report on the dispute to the parties on 25 April 1989.

PROCEDURAL QUESTIONS

6. In its first submission to the Panel, the Republic of Korea argued that the complaint had been improperly brought under Article XXIII of the GATT and that the Panel should therefore declare it inadmissible. Korea requested that the Panel rule on the issue of admissibility prior to considering the merits of the complaint.

7. Korea put forward the following arguments for its request: since its accession to the GATT, Korea had applied restrictions on beef, among other products, under Article XVIII:B. Korea had regularly held consultations about these restrictions pursuant to Article XVIII:12(b), under the aegis of the GATT's Balance-of-Payments Committee. The most recent report of this Committee was issued as BOP/R/171 (1987). A new round of consultations was scheduled to take place in June 1989.

8. Korea also argued that the General Agreement made specific provision for a complaint procedure in Article XVIII:12(d) if, despite the multilateral surveillance exercised pursuant to other provisions of Section B of Article XVIII, a contracting party wanted to challenge the consistency of restrictions that had been applied under this Section.

9. Korea further noted that the complaint procedures of Article XVIII:12(d) and Article XXIII differed in several important respects. For example, under Article XVIII:12(d), the complainant must make a prima facie showing that the disputed restrictions were inconsistent with the provisions of Article XVIII:B. On the other hand, Article XXIII merely required a showing of nullification or impairment of benefits of the complainant, which was not dependent on a showing of inconsistencies with the General Agreement. There were valid reasons for these differences. When countries applied restrictions under Article XVIII:B and held regular consultations concerning these measures with a qualified GATT Committee that took into account the relevant findings of the International Monetary Fund, they had a legitimate expectation that these measures could not simply be challenged under the relatively loose requirements of Article XXIII regarding nullification or impairment. Otherwise, the exercise of multilateral surveillance pursuant to Article XVIII:B became meaningless.

10. The Panel decided to make an immediate ruling on the question of admissibility as requested by Korea, as follows:

> "After deliberation the Panel came to the same conclusion as in the case of the United States/Korean Panel and in the case of Australian/Korean Panel, namely that it clearly has a mandate to examine the merits of the case in accordance with its terms of reference. The Panel also found that it cannot accede to the request of the Republic of Korea. The following considerations were taken into account by the Panel in arriving at its conclusions:
>
> (a) At the GATT Council in September 1988, New Zealand requested the establishment of a panel under Article XXIII:2. The Republic of Korea agreed to this request. As is customary, the Panel was set up by the GATT Council by consensus. The Republic of Korea is a party to the consensus to set up the Panel under Article XXIII:2.
>
> (b) The terms of reference given to the Panel, and agreed to by the parties as well as the Council, require the Panel to examine, in the light of the relevant GATT provisions, the matter referred to the CONTRACTING PARTIES by New Zealand in document L/6354, and to make such findings as will assist the CONTRACTING PARTIES in making the recommendations or in giving the rulings provided for in Article XXIII:2.
>
> (c) The terms of reference do not give the Panel authority to rule on the admissibility of the claim."

FACTUAL ASPECTS

11. The case before the Panel concerned measures maintained by the Republic of Korea on imports of beef (CCCN 02.01).

(a) General

12. Since its accession in 1967, Korea has maintained balance-of-payments (BOP) measures on various products. Since that year, and to date, Korea's BOP restrictions have been subject to regular review by the BOP Committee. During this period, Korea had abandoned or relaxed restrictions on some products. By 1988, restrictions for which Korea claimed BOP cover were still maintained on 358 items,

including beef. In 1979, the Korean tariff on beef was BT1 0 0 1 345.6 723.84 Tm0 g /F21 6.6 Tf(1) TjETBT1 0

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of beef to be imported before the end of the year. For 1989, a quota of up to 39,000 tons had been announced.

(b) Korea's balance-of-payments consultations

14. At the last meeting of the BOP Committee in December 1987, "the Committee took note with great satisfaction of the improvement in the

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se512.4 Tm/F8 11 Tf(Korean) TjETBT1 0 0 1 313.2 512.4 Tm/F8 11 Tf(trade) TjETBT1 0 0 1 339.3ce512.4 Tm/F8 11 Tf(and)

of US$14.1 billion, compared to US$9.9 billion for the whole year of 1987. Official reserves (gross) passed from US$3.6 billion at the end of 1987 (enough to finance 1.1 months of imports) to US$12.3 billion at the end of 1988 (3 months of imports). Finally, the ratio of external debt to GNP decreased from 30 per cent in 1987 to 20.4 per cent for the period January-September 1988.[4]

(c) Korean beef production and imports

17. During the late 1970's and early 1980's, Korea adopted a number of policies designed to promote a cattle herd build-up. These measures included banning the slaughter of all bulls under 350 kg. and cows of less than six years of age. In addition, Korea began to import large quantities of beef for domestic consumption. Finally, Korea undertook an expansion of credit to help cattle farmers build up their herds and provided producer incentives (5,000 won per head) for female calves. The credit programme and restrictive slaughter rules led to a sharp increase

20. Under the Foreign Trade Transaction Act, the Republic of Korea handled beef imports via two separate mechanisms. One mechanism was concerned with imports of beef for general domestic consumption and generally covered more than 90 per cent of beef imports. These were administered by the NLCF which was established in 1981 by the Livestock Cooperative Law. It had the following functions: (a) administration of a Livestock Development Fund (funded by import levies and direct government contributions) with a prime responsibility of providing concessional loans to livestock farmers; (b) establishment of livestock markets; (c) intervention in the domestic market to stabilize prices through the purchase or sale of stocks; (d) import operations; (e) supply of farming material; (f) marketing of livestock products; (g) general banking business; and (h) extension services. The NLCF imported beef for the general market through a tender system, according to the MAFF's guidelines. Some of the imported beef was processed by the NLCF into packed beef, and

President, NLCF

Article XI:1

27. New Zealand argued that, according to Article XI:1, Korea was entitled to maintain its bound duty of 20 per cent on imports of the meat of bovine animals. However, Korea retained a web of additional restrictions that severely depressed the level of imports beyond that which would pertain were only the 20 per cent duty to be levied, and also seriously distorted the pattern of trading opportunities within these severely depressed overall levels of imports. These additional restrictions were clearly contrary to the provisions of Article XI:1.

28. New Zea

36. New Zealand considered that the protection afforded by the LPMO clearly restricted trade in

Article X

39. New Zealand alleged that Korea's administration of beef import restrictions violated the provisions of Article X, which required contracting parties to publish promptly all rulings and requirements pertaining to

44. The above-mentioned principle was self-evident according to Korea. If measures were subject to GATT review pursuant to special procedures, it made no sense to allow them to be challenged under Article XXIII as well. Such duplication wasted the resources of all concerned, in particular of the GATT bodies charged with the special review, and of the country whose measures were being examined. Moreover, to the extent the standards of review under Article XXIII were different from the standards applied to the special review procedures, review under Article XXIII negated the latter.

45. New Zealand replied that Korea was attempting to use sETBT1 0 0 1 125.52 654.48 Tm/F8 11 Tf TjETBT

of Article XXIII. The practical consequences could be all too easily sketched. In short, acceptance of the Korean logic would lead to the absurd position where contracting parties wishing to use the exemption provided by GATT's BOP provisions could ensure that the GATT consistency of the measures could never be challenged provided the purely formal requirement of a review were met.

49. In response, Korea took issue with New Zealand's claim that the BOP Committee process could be abused this easily by a country claiming BOP cover for a trade restriction. Korea also rejected any suggestion that it had abused the BOP Committee process. Furthermore, New Zealand failed to make a clear distinction, according to Korea, between the BOP Committee's review procedures under Article XVIII:12(b) and the as yet uncharted involvement of

52. If the Panel were to review New Zealand's complaint under the standards of Article XXIII, Korea argued, the Panel would be agreeing that New Zealand and any other country that wanted to challenge a BOP measure could choose to ignore Article XVIII:12(d). By doing so, the Panel would render these provisions obsolete. The general procedure of Article XXIII would thus supersede the special review procedure of Article XVIII:12(d). Accordingly, by reviewing New Zealand's complaint under the standards of Article XXIII, the Panel would effectively amend the General Agreement.

53. Consequently, Korea argued, in accordance with the long-standing practice of the CONTRACTING PARTIES, New Zealand was not entitled to complain about the possible inconsistencies of the disputed beef restrictions with provisions of the General Agreement pursuant to Article XXIII:1(a). Instead, New Zealand would have to show that Korea's restrictions on beef imports constituted "non-violation" nullification or impairment under Article XXIII:1(b) or (c). Korea asserted that there was no hard and fast rule as to how a showTm/F8 11 Tf(to) TjETan.56 690.64 Tm/F8 11 Tf(sf) TjETBT1 0 0 1 234208 590.64

remained in force after the need for them had disappeared, and that some of the quantitative restrictions

of its BOP restrictions was motivated by a worsening of its BOP situation and hence did not notify the measures pursuant to Article XVIII:12(a)". Thus, even in the eyes of Korea, it did not have clear Article XVIII:12 cover for its measures. Korea could hardly now expect that New Zealand should

clearly a "number" (it must, by definition, have ranged from a majority of committee members to all but Korea) of committee members had already concluded. But until the Panel did so on behalf of the CONTRACTING PARTIES, the legal consistency of Korean measures on beef with respect to Article XVIII:B remained open.

65. Korea asserted that the Committee's language was more

68. New Zealand replied that it was claiming that the measures under the terms of reference were not consistent with the GATT. Korea had chosen to defend the measures under consideration on grounds of Article XVIII:B. New Zealand for its part did not consider that Article XVIII:B applied, both because the measures were not for BOP purposes and because Korea did not have a BOP problem as claimed. Furthermore, if a panel was to refrain from examining or finding on a particular case on grounds that this might have implications for other products or other contracting parties, the GATT dispute settlement process would not operate and would be rendered meaningless.

69. Korea submitted that without further advice from the IMF pursuant to Article XV:2, the Panel could not make any recommendations on the justification of Korea's restrictions on imports of beef under Article XVIII:B. Yet, it was open to question whether the Panel would be competent, without specific authorization from the Council, to consult with the IMF. To Korea's knowledge, panels had received no such authorization to date.

70. New Zealand replied that before the Panel could take a view on a particular measure's consistency with the various specific conditions of Article XVIII:B, it would need to be convinced that the country had a BOP problem in the first place. But the GATT was very precise in defining what constituted a BOP problem. It was defined in Article XVIII:9 by reference to "monetary reserves". GATT panellists, when they were drawn from CONTRACTING PARTIES, tended to be trade policy experts, not international monetary experts. Thus, a panel asked to make a finding on the basis of Article XVIII:9 was fully entitled to seek the advice of such experts through the explicit link between Articles XVIII:9 and XV:2. Seeking an updated view from the IMF was not, as Korea suggested, a mandatory requirement. The provision of Article XV:2 could be considered already met by the 1987 consultations with the IMF. But a good deal had happened to Korea's foreign exchange position in the last two years. New Zealand would thus consider it advisable to seek renewed advice. But that was for the Panel to determine and would indeed be unnecessary if the Panel had already concluded that Korean measures on beef were not being maintained for BOP reasons.

71. In response, Korea argued that the determination rendered by the IMF in 1987 plainly did not hold that Korea's BOP restrictions were unjustifiable under Article XVIII:B. Even assuming therefore that "updates" fell outside the purview of Article XV:2 (which Korea contested), New Zealand was not seeking an update in this case. In order to rule against Korea on the GATT compatibility of its restrictions under Article XVIII:B, the Panel would need a binding determination from the IMF pursuant to Article XV:2 that Korea's BOP position no longer justified restrictions. That would not be an "update". That would require the IMF to reach a very different conclusion from the one which it had reached in the past. Furthermore, Article XXIII:2 was not dispositive regarding the powers of a panel to initiate consultations independently with the IMF. The determinations of the IMF under Article XV:2 bound the CONTRACTING PARTIES. Thus, if this Panel were to obtain determinations from the IMF, these determinations would bind, among others, the BOP Committee. Yet, Korea expressed doubts whether the GATT and the IMF really envisaged that various GATT bodies could independently request binding determinations on BOP issues. In this connection, Korea recalled that the CONTRACTING PARTIES had specifically authorized the BOP Committee, in its work under Article XVIII:12(b), to consult with the IMF pursuant to Article XV:2.[26] Furthermore, Korea referred to the Working Party which had examined the BOP surcharge imposed by the United States in 1971. This Working Party was also specifically authorized by the CONTRACTING PARTIES to consult with the IMF.[27]

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72. Should the Panel wish to proceed with a request for such consultations with the IMF, New Zealand asserted that there were no grounds for the Korean suggestions that it would have to seek authorization from the CONTRACTING PARTIES before doing so. The Panel had been established pursuant to Article XXIII:2. This Article stated that "the CONTRACTING PARTIES may consult … with any appropriate intergovernmental organization in cases where they consider such consultation necessary". CONTRACTING PARTIES in the context of the second and third sentences of Article XXIII:2 meant a panel or working party; they clearly had the authority as the non-mandatory language above implied.

73. New Zealand also argued that Article XVIII:4(a) allowed a temporary departure from the provisions of the other articles of the General Agreement. Further, Korea had been subject to the consultation

75. In response Korea argued that the question of whether the disputed restrictions were justified under Article XVIII:B essentially turned on whether Korea had cause to be concerned about the level of foreign reserves that were necessary for the implementation of its programme of economic development. Korea asserted that the restrictions which it currently maintained, including its restrictions on beef imports, were indeed necessary to secure an adequate level of reserves. Firstly, its present reserves provided no more than one month's import cover. Secondly, Korea's huge foreign debt, though declining, still posed a serious threat to Korea's balance of payments.

76. Furthermore, according to Korea, the beneficial effect of Korea's current account surpluses on its BOP position should not be overestimated. Korea's current account had been in surplus only since 1986. Its surplus, moreover, was very vulnerable because of its structure. There were several reasons for this, and by way of illustration Korea mentioned two of them. First, the share of trade in total GNP was as high as 72 per cent in 1987. A worsening of the world market situation would therefore immediately affect Korea's balance of payments. Second, Korea had a population of 42 million people and more than 70 per cent of its

(c) The objective circumstances, which showed a clear correlation of restrictive import measures with trends affecting industry protection rather than BOPs (e.g. positive correlation of increased protection against imports with downward domestic prices and negative correlation with evolution of the BOP situation).

79. Korea argued that the fact that the restrictions on beef imports had protected Korea's cattle farmers did not render Article XVIII:B inapplicable. Trade restrictions imposed for BOP reasons had protective side effects and tended to favour specific industries. The point remained, however, that the GATT as it was originally drafted, and as it stood today, did permit the use of trade restrictions for BOP purposes and thereby accepted such protective side effects. Referring to New Zealand's claimed that "the suspension of imports is thus clearly explained by agricultural policy decisions, not by foreign exchange developments" Korea contended that such an assertion ignored the fact that restrictions imposed for BOP reasons could and did have side effects. Indeed, Korea had never concealed that the BOP measures on beef protected its cattler farmers.

80. New Zealand replied that it was indeed true that trade restrictions taken for legitimate BOP reasons had protective side-effects. It was also true that a contracting party imposing trade restrictions for protective reasons could claim, after the event, that they were taken for BOP reasons. In terms of the GATT, the first was legal, the second was not. The Panel had to decide which was the case here. It involved a judgment about intentions. Moreover, as mentioned above it was clear from the documents submitted to the Panel that the reason for restrictions on beef was not BOP difficulties, but the protection of domestic cattle prices.

81. Korea submitted that when it acceded to the GATT in 1967, the restrictions which it imposed for BOP reasons (on imports of beef, among numerous other products) were justified under Article XVIII:B. This had never been contested, and to do so now would amount to a retroactive withdrawal of the Article XVIII:B cover from all its BOP restrictions. On the other hand, New Zealand could be making a different and more modest claim. It could be saying that the restrictions on beef imports as such were justified under Article XVIII:B, but that the intensification of these BOP measures in 1984/85 was not. In this connection, New Zealand had pointed out that Korea's BOP position was improving. That might indeed seem contradictory. But one had to appreciate that Korea was then faced with an unprecedented situation. In conjunction with its general liberalization efforts, Korea relaxed its restrictions on beef imports in the early 1980's. There were differences between products in this process. Some BOP restrictions were eliminated altogether. Some, like those on beef imports, were not removed but relaxed. This was consistent with the GATT which did not require that all BOP restrictions be terminated at once. In deciding which BOP restrictions could be eliminated and which should be maintained or relaxed, so as to ensure an adequate BOP position overall, Korea obviously took into account the state of the various domestic industries that would be affected by these liberalization measures. Thus, Korea argued that in deciding to relax the BOP restrictions on beef imports in the early 1980's, Korea not only assessed the effects on its overall BOP position, but also considered the impact on its cattle farmers. Now, with the benefit of hindsight, some might say that the Korean Government miscalculated the level of imports to which its cattle farmers could adjust because by mid-1984, many small cattle farmers were going bankrupt or incurring very heavy losses. That was when the Korean Government decided to intervene and intensified the Article XVIII:B restrictions on beef imports. It was a situation which the GATT regime, including its BOP provisions, did not envisage.

82. As concerned the "retroactivity" aspects of the Korean arguments, New Zealand replied that the retroactivity issue involved two matters. One related to the point that the Korean argument misrepresented the legal standing conferred by the adoption of a BOP Committee report. The second related to a view that misconstrued significantly the nature and purpose of GATT's BOP provisions. There was every possibility that a panel, if asked, say in 1976 to rule on the consistency of Korean restrictions with Article XVIII:B might have upheld the consistency of such measures. The reason

was that in 1976 "… the Committee agreed with the IMF that Korea's balance-of-payments position justified import restrictions under Article XVIII:B".[33] In 1979, the wording of the BOP Committee was less dogmatic, reflecting the

87. New Zealand replied that the measures under consideration by the Panel were not justified by Article XVIII:B at all. As admitted by Korea, they were measures imposed, not to achieve BOP objectives, but to protect the Korean beef industry. The statements and structures referred to earlier were related to the totality of the restrictions - not some portion of them. Moreover, New Zealand had noted the Korean statement that "the intensification measures were not motivated by BOP concerns, but instituted in order to remedy the disruption of Korea's cattle farming industry". Of course, Korea fell short of unequivocally conceding the point by use of the term "intensification". But it could be shown that the implied distinction between "intensified" and "underlying" restrictions had no foundation and that the measures as a whole were not eligible for justification under Article XVIII:B. The purpose of the measures was the relevant consideration. The Korean distinction seemed to rest on the false assumption that protective purpose and varying import levels at the border were somehow incompatible. On the contrary, the actual levels of import restraint would be varied from period to period precisely in order to meet the basic purpose of domestic protection. If import prices were, in a given year, at a higher level, and/or producer prices were also higher, a regime based on protective purpose could well be prepared to allow more imports than before. But the basic purpose - which was the relevant consideration here - was identical in both circumstances. It

restrictions on beef imports were no longer justified under Article XVIII:B, while maintainin
the other 357 restrictions continued to be justified as they were. Obviously, improvements in K
BOP position did not affect the restrictions on beef imports exclusively. Prescriptions for change re
a global assessment. Yet, an across-the-board review of all of Korea's remaining BOP restri
clearly fell outside this Panel's terms of reference.

91. In the event the Panel were to find that Korea's beef restrictions were not consistent wi
provisions of Article XVIII:B, Korea argued that a novel situation would arise. There was no pre
in GATT addressing the

Article XI:1 which proscribed "prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures". Australia also considered that the mark-up practised by the LPMO on imports of beef, the sole Korean importer of beef from August 1988 and an authorized monopoly in the sense of Article II:4, contravened the provisions of that Article. Australia further argued that the Korean measures could not be justified under Article XI:2, Article XVIII:B or under any other Article of the General Agreement.

96. Australia argued that Korea did not meet the appropriate requirements for coverage of its beef import measures under Article XVIII:B: The Korean beef import regime contravened both the spirit and the letter of Article XVIII:B, paragraphs 9, 10, 11 and 12(a), as well as the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes. Korea had implemented an effective prohibition rather than a restriction on beef imports from 1984 to 1988. The nature of Korea's beef import regime from at least 1984 onwards was demonstrably not necessary to achieve the objectives specified in paragraph 9 and could not, therefore, be deemed consistent with its provisions. Moreover, Korea's economic situation was certainly not such in 1984 as to justify the intensification of import restrictions under the provisions of paragraph 9. Also, there were clear indications that the Korean measures with respect to beef imports were not taken for BOP reasons, but to protect the domestic industry.

97. The United States considered that the Korean import ban and quantitative restrictions on beef imports violated GATT Article XI:1 since that Article prohibited any contracting party from imposing quotas, import or export licences or other measures to restrict trade. To the extent that Korea F8 11 Tf(12(a),) T

102. Canada considered the Korean measures to be in contravention of Korea's GATT obligations under Article XI:1 which prohibited the maintenance of quantitative restrictions through quotas, import licences or other means. The import regime protected Korean beef and discriminated against imported beef. By granting licences only for amounts which represented the shortfall in domestic production, the import regime had been established with the clear intent to ensure Korean beef primary access to the market. Canada further argued that these measures could not be justified under the provisions of Article XI:2 or Article XVIII:B, or under any other exception of the General Agreement.

103. It was also Canada's view that the practices of the LPMO represented a barrier to trade with respect to the variable surcharge it added

Article XI

107. The Panel

CONTRACTING PARTIES.

116. At the full consultation in the Balance-of-Payments Committee with Korea in November 1987, "[t]he prevailing view expressed in the Committee was that the current situation and outlook for the balance of payments was such that import restrictions could no longer be justified under Article XVIII:B".[38] Moreover, the full Balance-of-Payments Committee had "stressed the need to

121. Bearing in mind Article 31:5 of the Havana Charter, the Panel considered that, in view of the existence of quantitative restrictions, it would be inappropriate to apply Article II:4 of the General Agreement in the present case. The price premium obtained by the LPMO through the setting of a minimum bid price or derived sale price was directly afforded by the situation of market scarcity arising from the quantitative restrictions on beef. The Panel concluded that because of the presence of the quantitative restrictions, the level of the LPMO's mark-up of the price for imported beef to achieve the minimum bid price or other derived price was not relevant in the present case. Furthermore, once these quantitative restrictions were phased out, as recommended

RECOMMENDATIONS

125. In the light of the findings above, the Panel suggests that the CONTRACTING PARTIES recommend that:

(a) Korea eliminate or otherwise bring into conformity with the provisions of the General Agreement the import measures on beef introduced in 1984/85 and amended in 1988; and,

(b) Korea hold consultations with New Zealand and other interested contracting parties to work out a timetable for the removal of import restrictions on beef justified since 1967 by Korea for balance-of-payments reasons and report on the result of such consultations within a period of three months following the adoption of the Panel report by the Council.

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ANNEX 1

Extract from

ANNEX II

KOREA: SUMMARY OF ECONOMIC INDICATORS

	1985	1986	1987	Jan-Sept 1988	1985/84	1986/85	1987/86	Jan-Sept 1988/87
	(Billion won)				(Percent changes)			
GNP (1980 constant prices)	52,705.4	59,187.8	66,319.6	51,369.6	5.4%	12.3%	12.0%	12.0%
Real Domestic Demand	54,960.7	59,540.6	65,590.3	50,184.9	4.0%	8.3%	10.2%	11.0%
Consumption	37,191.6	39,888.6	42,976.2	33,654.5	5.1%	7.3%	7.7%	8.1%
Gross capital formation	17,769.1	19,652.0	22,614.1	16,530.4	1.6%	10.6%	15.1%	17.4%
Export of goods and non factor services	20,279.5	25,648.1	31,809.0	26,117.3	2.1%	26.5%	24.0%	12.3%
Imports of goods and non factor services	20,124.1	23,852.7	28,899.6	24,140.9	- 1.7%	18.5%	21.2%	14.9%
					(Average, twelve month percent change)			
Prices, Wages and Employment								
Consumer prices	100.0	102.8	105.9	112.7	2.5%	2.8%	3.0%	7.1%
Terms of Trade	100.0	108.8	111.5	114.3	0.5%	8.8%	2.5%	2.5%
Nominal earnings in manufacturing 1)	269.7	294.5	328.7	364.8	9.9%	9.2%	11.6%	21.1%
Unemployment rate	4.0	3.8	3.1	2.6	4.0%	- 5.0%	- 18.4%	- 23.5%
	(Billion won)				(Percent of GNP)			
Public Sector								
Revenue	14,223.5	16,278.6	19,270.5	18,007.6	27.0%	27.5%	29.1%	35.1%
Expenditure	13,585.0	15,310.5	18,364.6	14,375.9	25.8%	25.9%	27.7%	28.0%
	(Billion won)				(Twelve month percent change)			
Money and Credit								
Money and quasi-money	28,565.2	33,833.1	40,279.5	42,714.6	16.8%	18.4%	19.1%	18.3%

Source: Monthly Statistical Bulletin, November 1988, The Bank of Korea.
International Financial Statistics, December 1988, IMF.

1) In '000 won. 1988: January-July. 2) Reflects changes in the net foreign assets of the banking system.

KOREA: SUMMARY OF ECONOMIC INDICATORS (Cont'd)

	1985	1986	1987	Jan-Sept. 1988
		(Billion US$)		
Current account	(0.9)	4.6	9.9	14.1
Trade balance (f.o.b.)	-	4.2	7.7	11.1
Exports	26.4	33.9	46.2	59.7
Imports	(26.5)	(29.7)	(38.6)	(48.6)
Services and transfers (net)	(0.9)	0.4	2.2	3.0
Capital account (net)	(0.7)	(1.5)	(4.3)	(0.5)
Errors and omissions	(0.8)	(0.5)	1.2	-
Overall balance 2)	(2.5)	2.6	6.8	13.6
		(Billion US$)		
Gross Official Reserves (end of period)				
In months of imports	2.9	3.3	3.6	12.3 (actual)
	1.3	1.3	1.1	3.0
		(Billion US$)		
Outstanding external debt (end of period)				
Medium- and				

ANNEX III

Article 31 of the Havana Charter

Expansion of Trade

1. If a Member establishes, maintains or authorizes, formally or in effect, a monopoly of the importation or exportation of any product, the Member shall, upon the request of any other Member or Members having a substantial interest in trade with it in the product concerned, negotiate with such other Member or Members in the manner provided for under Article 17 in respect of tariffs, and subject to all the provisions of this Charter with respect to such tariff negotiations, with the object of achieving:

(a) in the case of an export monopoly, arrangements designed to limit or reduce any protection that might be afforded through the operation of the monopoly to domestic users of the monopolized product, or designed to assure exports of the monopolized product in adequate quantities at reasonable prices;

(b) in the case of an import monopoly, arrangements designed to limit or reduce any protection that might be afforded through the operation of the monopoly to domestic producers of the monopolized product, or designed to relax any limitation on imports which is comparable with a limitation made subject to negotiation under other provisions of this Chapter.

2. In order to satisfy the requirements of paragraph 1(b), the Member establishing, maintaining or authorizing a monopoly shall negotiate:

(a) for the establishment of the maximum import duty that may be applied in respect of the product concerned; or

(b) for any other mutually satisfactory arrangement consistent with the provisions of this Charter, if it is evident to the negotiating parties that to negotiate a maximum import duty under sub-paragraph (a) of this paragraph is impracticable or would be ineffective for the achievement of the objectives of paragraph 1; any Member entering into negotiations under this sub-paragraph shall afford to other interested Members an opportunity for consultation.

3. In any case in which a maximum import duty is not negotiated under paragraph 2(a), the Member establishing, maintaining or authorizing the import monopoly shall make public, or notify the Organization of, the maximum import duty which it will apply in respect of the product concerned.

4. The import duty negotiated under paragraph 2, or made public or notified to the Organization under paragraph 3, shall represent the maximum margin by which the price charged by the import monopoly for the imported product (e44 Tm/F8 11 Tf(this) u0 1 22/F8rough

6. In applying the provisions of this Article, due regard shall be had for the fact that some monopolies are establish9,