DISPUTE SETTLEMENT PROCESS UNDER GATT/WTO
DIPLOMATIC OR JUDICIAL PROCESS ?

by

H. NARSINGHEN

Department of Law Faculty of Law and Management
University of Mauritius, Réduit, Mauritius

(Received Septembre 1998 – Accepted June 1999)

ABSTRACT

This paper probes the mechanisms of the dispute resolution process under the World Trade Organisation (WTO) and the General Agreement on Tariff and Trade (GATT).

It tries to analyse the evolution of the dispute process which was initially based on diplomatic procedures and gives an account of its evolution and assesses the outcome of the attempt to a strike delicate balance between diplomacy and judicialism.

Conflicting views exist on whether the dispute mechanism, under the WTO, leans towards judicialism or diplomacy. The author by going to the original articles and analysing critically the views expressed by the ‘extremists’ brings some new enlightenment on the controversial issue. An objective and scientific analysis is pursued as far as possible by going beyond the black letter rules to the rationales and policy issues of the whole dispute settlement process.

Keywords : GATT/W.T.O – Dispute – Judicial /Diplomatic Resolution
INTRODUCTION

Diplomatic settlement of disputes has been the guiding rule within the framework of the General Agreement on Tariffs and Trade (GATT). This mode of settling of disputes is grounded on historical, economic and political realities. Dispute settlement procedures under the GATT originally played a very modest role. (Hallstrom, 1994: 15). The International Trade Organisation (ITO) proposed by the Bretton Woods agreement would have formal mechanisms to settle disputes, but this organisation was never set up. The GATT, which was in fact a provisional agreement (Lowenfield, 1984: 83) was characterised by ad hoc solutions to emerging problems. (Trebilcock et al. 1996: 383). It was difficult to structure a formal mechanism to settle disputes within an organisation which was not yet formed, but which has become a functional one. (Hudec 1990). By contrast, the World Trade Organisation (WTO) is a formal organisation. Yet, could there be a radical departure from the existing GATT rules and practices for dispute resolution? Besides the infrastructural problem within GATT, there are other compelling reasons which can explain the recourse to diplomatic conciliation rather than more formal modes of settling disputes. The scope of this paper is to consider to what extent disputes under the GATT and WTO are settled by judicial or diplomatic process and to assess whether there is an inclination for more Judicialism under the WTO. To place the problem in its proper context, an insight of the background of GATT/WTO is important.

THE BACKGROUND OF GATT/WTO

Trading relationships among merchants from different nations and States, go back to the medieval time. Free trade gained momentum in the mid-nineteenth century under the pressure of the advanced European Countries. The dismantling of protectionist measures was triggered by national legislation (e.g. the Corn Laws of 1846 in U.K). National Legal Strategies were not sufficient to promote trade liberalisation. Bilateral treaties or multilateral treaties had to be negotiated to enhance trade liberalisation.

At that time the Most Favoured Nation (MFN) clause was itself a major principle to consolidate trade and later it became a cornerstone of the GATT. Under this principle, countries negotiating trade concessions with one another agreed that they would extend to each other any more favourable concessions that each might subsequently negotiate with third countries. The advent of the First World War disrupted Free trade at the international level. The MFN principle fell into disuse. The economic depression at that time prompted many countries to adopt extreme forms of protectionist measures. By 1944 UK and USA devised strategies for reconstruction.
Dispute settlement process

The Brettons Woods Agreement envisaged the creation of:

(i) The International Monetary Fund (IMF) to maintain exchange rate stability
(ii) and to solve the balance of payment crises.
(iii) The International Bank for Reconstruction and Development (IBRD), commonly known as the World Bank, where the immediate concern was to provide capital for reconstruction.

The International Trade Organisation (ITO), was to have a mandate to administer the multilateral world trade regime. The IMF and World Bank were created subsequently, but not the ITO. The GATT, which was a provisional agreement in the field of trade remained the ‘permanent’ institutional mechanism until 1994. The Uruguay Round formalised the setting up of the WTO in that very year. Any organisation is supposed to have a mechanism for settlement of disputes. Normally domestic organisations have recourse to courts, arbitration and mediation. By contrast, States are more reluctant to entrust dispute settlement mechanisms to International Organisations. Why? The following chapters will shed some light.

ECONOMIC AND POLITICAL RATIONALES BEHIND THE CHOICE

Trade matters, especially at international levels, are mingled with the economic policies of the Member States (Hallstrom, 1974) Economic policies fall in the arena of pure politics. When trade matters transcend the economic sphere to embrace the political one, they become highly sensitive. States are not willing to submit political conflicts to tribunals or courts. The States wish to take final decisions themselves, so as to keep ultimate control. Such approach of States goes beyond GATT and trade matters.

For instance, among the five permanent members of the UN Security Council, only the UK currently accepts the mandatory jurisdiction of the International Court of Justice (ICJ) (Petersman, 1994) In other international or supranational organisations, other than the European Community and Council of Europe, mandatory court and arbitration procedures continue to be the exception rather than the rule. There were strong reasons for GATT to favour diplomatic means of settling political conflicts. For instance, States are very touchy about their Sovereignty and they are unwilling to accept solutions imposed by foreign bodies. So the goal of dispute resolutions within GATT/WTO context is not necessarily to create clear-cut, binding rules or rigorous application of the law (Young, 1995). The process is designed to end the
dispute and to stop the violation as soon as possible. This goal is best achieved through careful negotiations and appropriate compromises. Such an approach is dictated by the Sovereign nature of the disputants and the delicate nature of International Trade.

However, such an approach does not always produce effective results. The mechanism appears to be loose. Dispute settlement under the GATT and associated codes, originally was tainted with long delays, inconsistencies, uncertainty, inadequacy of enforcement (Kohana, 1994). However, in the course of time, the practice of GATT has leaned towards a sort of legalism.

The Uruguay Round (UR) which included an enhanced dispute settlement mechanism as part of a package (Kohana, 1994) marked a turning point in the evolution of World Trade procedural mechanisms. Whilst politicians and economists and policy-makers are focusing on the substantive aspects of the UR, lawyers should not underestimate the change at the level of dispute settlement. It is obviously not a radical departure, but it confirms and consolidates to a certain extent the movement towards legalism. Possibly it is not yet a Lawyers’ triumph over Diplomats as the title of Young’s (Young, 1995) article claimed, but a closer analysis is important to assess the limits of diplomatic conciliation and the effects of the inception of an adjudicatory system of dispute settlement.

THE PREMISE OF DISPUTE SETTLEMENT UNDER THE WTO AND THE EVOLUTION OF GATT RULES

The new agreement of WTO states that the organisation shall be guided by the decisions, procedures and customary practices followed by the contracting parties to GATT 1947 and the bodies established within the framework. At the same time its Dispute Settlement Understanding (D.S.U) builds on the “adherence to the principles for the management of disputes therefore applied under Articles XXII and XXIII of GATT 1947.” The interpretation and application of the WTO dispute settlement process will be strongly influenced by this past evolution. So, the backbone of the new dispute settlement process remains the GATT provisions.

The ‘Understanding’ of rules and procedures governing the Settlement of Disputes of the WTO (DSU) came to complement the mechanism. The new rules form an integral part of the agreement (WTO Agreement, Article II:2). Article XXII of the GATT required only consultations and ‘sympathetic consideration’ following the complaints of an allegedly aggrieved country. If the dispute was still unresolved after bilateral consultations, the complainant could go further. It could seek consultations on a multilateral level with the contracting parties. Article XXIII has
Dispute settlement process

slightly more teeth. Contracting parties may be required to investigate promptly and make ‘appropriate recommendations’. On the basis of Article XXIII itself, working parties were forced to resolve disputes (Young, 1995). Thus working parties initially operated more as conciliatory or mediatory institutions. (Young 1995)

At a later stage, the working parties were transformed into panels and thereon there was a slight tendency to be more adjudicatory. The panel reports began to resemble arbitration decisions much more than negotiated compromises. The late 1950s favoured a more legalistic approach. The perspective adopted by some countries like US, Canada, New Zealand, Hong Kong, Australia etc., viewed the General Agreement and other rules and obligations under the GATT auspices as being binding. A second approach adopted by the European Community, Japan and others viewed that approach as an encroachment on national sovereignty (Hallstrom, 1974).

The flexible approach adopted by the latter countries allows the members to retain their sovereignty and policy making authority in spite of the obligations under the GATT (Young, 1995) In the 1960s the contracting parties had more trouble to adopt the reports. Moreover with increased membership, the ‘consensus underlying basic GATT principles’ started to erode. The emergent GATT dispute resolution procedures were affected. (Trebilock et al., 1996)

Finally, the Understanding of 1979 in the wake of the Tokyo Round appears to go in both directions, towards legalism and diplomacy. For instance it sets time limits within which the panel (working parties) must be formed after the Director General having made a recommendation to the contracting parties. It formalises the principles governing the composition of the panel. It also specifies that if a matter goes to a panel, a report must be issued and that report shall be adopted by consensus within a ‘reasonable time’. However, at the same time, the Understanding contains provisions that provide strong support for the diplomatic approach towards dispute resolution. For example, the Understanding urges the parties to notify each other of any step they may take that is likely affect the operation of the GATT. It reaffirms the desirability of solving disagreements through consultation, without any specific time limit.

The Understanding of 1979 which gives preference to Government experts, appears to give primacy to the panel’s mediatory role as opposed to an adjudicatory role. Mediation is nearer to Diplomacy because it involves negotiation and solution is not imposed as for courts. The Understanding gives real powers to enforce the recommendations of a panel. However, this bias towards diplomacy did not work satisfactorily. In cases where the political stakes were high, the procedures proved to be unsuccessful. The UR was quite decisive in attempting to save the Dispute Settlement Mechanism. The UR changes proceeded in two steps. First, the ‘Improvements of 1989’ were adopted, followed by the ‘1994 Understanding on
Rules and Procedures Governing the Settlement of Disputes’ (UR Understanding) was agreed. The new WTO dispute system is supposed to rectify the weaknesses and shortcomings of the previous mechanisms. It is too early to assess its success, but the changes can be analysed and certain logical forecasts can be made.

**SCOPE OF THE NEW WTO DISPUTE SETTLEMENT MECHANISM**

The UR Understanding covers all the agreements within the GATT and WTO (paragraph 1). However, many multilateral agreements, maintain or continue to include special dispute settlement rules and procedures. In the event of difference between the provisions of the UR Understanding and the special rules, the latter will prevail (DSU Article 1:2).

It is further provided that “If there are clashes between the provisions on dispute resolution procedures under more than one covered Agreement, when the parties cannot agree within 20 days of the establishment of the panel, the Chairman of DSU, the Dispute Settlement Unit in consultation with the parties to the dispute, shall determine the rules and procedures to be followed within 10 days after request by either party.” So, it can be seen that in contrast to the Tokyo Round, the UR Understanding substantially increases the scope of coverage of the General Dispute Resolution process (Young, 1995) because previously it was only for the provisions of the GATT.

**CONDITIONS PRECEDENT BEFORE SEIZURE OF PANEL PROCEDURE**

Consultation remains the first step to resolve a trade dispute within WTO. (Trebilcock et al 1996) The improvement of 1989 required a targeted contracting party to respond to a request for consultations within a strict and relatively short time period. (DSU, Article 4:3) An allegedly aggrieved country can stop the consultation and request for the establishment of a panel within a fixed time period. This is move towards a more formal regime.

The process of mediation has been maintained and is still privileged. But, technical refinements have been introduced. For example, there are specific time periods within which those activities should take place and basic procedures are laid down. Such development also leans towards more formalism and legalism. They prevent the parties from abusing the over-flexible procedures to bring about delay. The new provisions enable the good-offices or mediation to continue, while the panel
process may proceed. (DSU, Article 5:5) Furthermore, the parties may agree to have recourse to arbitration and that award shall be binding. Possibly such recourse was still possible under the old regime, but the new regime formalises this possibility. This is also a further step towards an adjudicatory type of dispute resolution process.

In principle a party must show that it has tried the above-mentioned avenues before a request for the panel process can be triggered. (Kohana, 1994) The UR Understanding places an obligation on parties to desist from launching dispute settlement processes on unsatisfactory grounds (DSU, Article 3:7) Thus the Dispute Settlement Body (DSB) will not find its prestige and effectiveness put at risk, by taking the wrong or futile case when required to do so.

The aggrieved party must also show a ‘cause of action’, but violation of rules of WTO or GATT is not a prerequisite to trigger an action. The complaining party needs only to show that the benefits reasonably expected under the Agreement have been nullified or impaired by actions of a partner. (Trebillock et al) In practice, breach of agreement must be averred. Furthermore, it should be pointed out that only contracting parties (Member States) have a ‘Locus-standi’, before the DSB. Individuals, companies etc cannot bring an action directly. They have to request their respective Governments to take up their case at the GATT/WTO Level. (Trebilcock et al 1996) This is another sign of a move towards judicialism.

Another issue concerning the preliminary condition is the question whether the aggrieved party should have satisfied the ‘exhaustion of local remedies rule.’ According to this principle of International Law, a party should have tried all domestic dispute mechanisms before going to the international forum mechanism of dispute resolving.

In a ruling in the Gray Portland Cement case of 1992 (United States – Anti dumping Duties on Gray Portland Cement and Cement Clinker from Mexico-GATT DAC), the panel appeared to state that the exhaustion of local remedies rule did not apply in the law of the GATT. By contrast Martha in his article recalls the Report of the Panel in 1983 where it has been recognised that principles of international law cannot be ignored by GATT Panels, solely on the ground that no GATT article provided for such principle.

Moreover, the UR Understanding directs that the clarification of multilateral trade arrangements is to be made in accordance with customary rules of interpretation of public International law. The Vienna Convention on the Law of Treaties also adopts
the same viewpoint. It would seem that the Panel ruling in 1992 is erroneous as it goes against the very provisions of the GATT and the UR Understandings.

**THE SETTING-UP OF THE DSB**

One of the innovations of the UR Understanding is the setting up of a Dispute Settlement Body (DSB), which will be responsible for dispute resolution. So, it is a more specialised and formalised organ. At the same time, recourse to a constituted panel has been formalised, which is a further step towards the ‘judicialisation’ of the panel procedure. The DSB will have the same membership as the General Council, but it will have a separate Chairman, a separate staff, separate rules of procedure. (Lowenfield, 1994)

When consultation and conciliation fail, a complainant party can bring the matter before the DSB. Under the UR Understanding, the panel must be established at latest, at the Council meeting following that at which the request first appears on the agenda. (Trebilcock et al. 1996)

The constitution of the panel is extremely sensitive. The first difficulty is to find the panellists and second is to make them acceptable to the parties. Finally, the panellists must accept their nomination. As under the 1989 Understanding, non-Government officials can also be panellists and this departed from the principle to give preference to Government Experts. This guarantees more expertise, independence and impartiality. It goes in the direction of more judicialism. The new rule also requires consensus for a decision not to establish a panel and this reversal of presumption makes the constitution of the panel to be quasi-automatic. In the past, Council consensus was required before the panel could be formed. (Young, 1995) The UR Understanding also obligates DSB to act with dispatch to establish a panel. The Secretariat is required to maintain a list of qualified individuals. Furthermore, if the parties cannot agree on the nomination of the proposed panellists, the UR Understanding allows the Director General, in consultation with the Chair of the Council, to finalise the composition of the panel within twenty days from its establishment of the panel. The making of a choice of the panellists by DSB can be hard, because representatives from the disputants cannot sit. At the same time, those with undeclared interests, but who may influence the decision, are ousted. Undeclared interests will include indirect or prospective interests. Furthermore, many countries do not have permanent representatives in Geneva. Some delegates do not have the necessary expertise to be a member of the panel. To solve the shortage of panellists, lists of non-Government experts as well as Government experts are submitted to the DSB (Trebilcock et.al. 1996). The UR
Understanding moves a step further to establish something like a permanent panel of ‘independent experts’, not necessarily based in Geneva. This can also be considered as a further step towards ‘Judicialisation’ of the dispute resolution process. It is like an identified entity which may not be physically and permanently based in Geneva, but which can be constituted easily. The panel may theoretically have three to five members, but in practice it will comprise three members. It is easier to arrive at a consensus with three panelists than with five. (Prentice, 1993) All these new mechanisms and precautionary measures bring the process more towards judicialisation.

Most of the panellists are likely to be lawyers. Would it not be ideal to have a lawyer as Chairman and the others to have relevant trade expertise? The Secretariat could provide legal advice for the procedures. The panel should work according to the agreed terms of reference. The parties have twenty days to decide on the terms of reference, and if no decision is taken within that period, the standard terms of reference will be used. (DSU, Article 7:1)

**PANEL PROCEDURE**

The panel is required to follow set working procedures as they appear in Appendix 3 of the UR Understanding. However, the panel after consultation with the members may decide otherwise (DSU, Article 12:1). The procedures should provide sufficient flexibility to ensure high quality panel reports.

The panel should also fix the time-table for the process. In the past, in the absence of a time-table, cases tended to linger on.

Each party to the dispute is required to deposit written submissions with the Secretariat which are then to be transmitted to the panel and the other party or parties to the dispute. Normally, the complaining party will hand over its written submissions, unless decided otherwise within the deadlines fixed for the submissions.

Time-frames should be strictly adhered to, unless special concessions are made, as for example to developing countries (DSU, Article 12:10). The panel can suspend its work for a period not exceeding twelve months at the request of the complaining party. Otherwise, the panel should not take more than six months from the time the terms of reference have been agreed upon, (Trebilcock et al. 1996) until it delivers its report.
In urgent cases, the deadline may be three months. Exceptionally after having informed the DSB of reasons for the delay, the panel has the right to seek information and technical advice from any individual or body which it deems appropriate. All the time-frames and deadlines lean towards more judicialism.

**INTERIM REVIEW STAGE**

The Interim Review Stage is yet another innovation of the UR Understanding. Following the consideration of the rebuttal submission and oral arguments, the parties shall issue the factual arguments within a period of time set by the panel. This time, they have to submit their comments in writing.

This is surely a refinement. It can even be considered as an adjudicatory-type of dispute resolution mechanism. It may help towards providing a better reasoned and motivated decision. It tends to provide a more sophisticated legal mechanism. Such a mechanism will ensure the consideration of all relevant arguments in the final report. It will also enhance the legal quality of the panel’s reasoning (Petersman 1994)

Moreover, it is also provided that the panel shall deliberate in absolute confidentiality and the opinions expressed in the panel report by individual panellists shall be anonymous. (Kohana 1994) This is certainly a reinforcement of the judicial nature of the process.

**ADOPTION OF PANEL REPORTS**

One of the most startling innovations of the UR Understanding is the creation of a rule of almost automatic adoption of panel reports. One of the main complaints against the prior regime concerned the difficulty in securing the adoption of the reports. (Young, 1995) Panel reports remained unadopted for years because one or more members could block the adoption. Now, a consensus is required to block the adoption of a panel report (Trebilcock *et al.*, 1996). The new regime ensures that the winning party will have at least the satisfaction of an authoritative binding decision in his favour.

The measure eliminates the hurdle of creating a consensus to adopt the report, by reversing the requirement for consensus. It also introduces a shift of influence from the contracting parties to the panels and the appellate body. All these technical changes enhance the judicial nature of the dispute resolution process. The other major innovation has been the setting up of an Appellate Body.
Dispute settlement process

APPELLATE BODY

Such innovation is definitely a further step towards Judicialism. The DSB is required to appoint seven non-governmental individuals. Such persons should be of recognised authority with demonstrated expertise in law, international trade and the subject matter of the covered agreements generally. (DSU, Article 17:3). The membership of the Appellate Body is to reflect broadly the membership of WTO. Only parties to the case can appeal. The right of appeal is quite restrictive, so as to avoid transforming it into a mechanism for delaying tactics. For instance Article 17.6 stipulates that an appeal shall be limited to issues of law covered in the panel report and legal interpretations developed by the panel. The restriction to legal issues is an overt sign for the movement towards increased judicialism.

The Appellate body may uphold, modify or reverse the legal findings and conclusions of the panel. The imposition of a specific time-frame prevents any abuse. The Appellate body lends support to the trend of judicialism and plays the role of the Supreme Court of the WTO dispute settlement procedures (Norgueira, 1996) The “United States - Standards for reformulated and conventional gasoline,” was the first Panel Report to be subject to an appeal. However, it is not easy to assess the proper role of the Appellate body at this stage.

SURVEILLANCE OF IMPLEMENTATION

One of the basic features of a Court or quasi-judicial organ is that its decisions can be enforced. However, at international level, most of the quasi-judicial organs or Courts suffer from the inability to implement decisions. Among the most serious problems facing the GATT over the years was the disinclination of countries to follow the recommendations of panel reports. (Young 1995)

The UR Understanding addressed this issue. First it requires the involved members to report to the DSB within thirty days of adoption of the panel report as to its intention to abide by the recommendation of the panel. The latter can establish mechanisms for the losing party to implement the recommendations over a period of time. The losing party can table a proposal for further negotiation and if there is no objection, the parties are allowed to renegotiate for at least 45d.

The UR Understanding makes specific provision to evaluate and monitor the consistency of proposed compliance measures with GATT/WTO as well as the adequacy of the implementation in general.
REMEDIES

Implementation and surveillance without proper remedies, will be of no avail. However, it has to be conceded that remedies at international level are more difficult to enforce. Normally, three kinds of remedies are provided: rulings, recommendations and suspension of obligations. Article 22 of DSU provides for compensation and suspension of concessions. It states that these are temporary measures to be used when recommendations and rulings are not implemented within a reasonable period of time. The clear preference is for the full implementation of the rulings and recommendations rather than a resort to compensation and the suspension of concessions. The provision also enables the injured party to decide whether it will proceed to enforce the recommendations of the DSB.

Article 22 also provides for a regulated right of retaliation. The right to retaliation comes into effect after a panel has decided that there has been a failure of a member to comply with the provisions of a covered agreement to the detriment of another member and the member in breach has failed to implement the relevant rulings. The retaliation is strictly regulated (Kohana 1994). Reparation is to be made by equivalence and not in kind. Effective enforcement of remedies is further evidence of the shift towards enhanced judicialism.

CONCLUSION

The new regime is a laudable effort towards the reduction of shortcomings in the techniques used for settlement of disputes within the GATT/WTO framework. In so far as the UR Understanding has crystallised the successful practices and customs of GATT, there is no doubt that the mechanisms will be fully used in practice, possibly with new vigour.

However, where completely new mechanisms have been devised, especially the tight time frames, surveillance and regulated sanctions, we shall have to wait for a number of years before any assessment can be made. Up to now, compared to other dispute resolution mechanisms at international level, those of the GATT have been quite successful. Professor Hudec rated the success as 80%, that is 4 out of 5 valid complaints were being dealt with successfully. Was it necessary to change the rules of the game? Over the 40yr of GATT, there has been an ebb and flow between diplomatic and adjudicatory models. Rhetoric apart, there is no triumph of legalism over diplomacy, but legalism in relative terms has prevailed during the Uruguay Round. Faced with the Lockean dilemma and Hobbesian one, it is not easy for the contracting parties to find the right balance, especially as trade issues are overload with policy issues and the sacrosanct principle of sovereignty comes
Dispute settlement process

into play. Time will tell us whether it is better to have an imperfect system that protects major principles than one which is so disciplined and rigid that it provokes violation and defiance.

The limited scope of the paper has not allowed us to venture into other issues such as preferential treatment for developing and least developed countries, the potential clashes between the various agreements between the GATT and the WTO. It would have been interesting to analyse the conceptual framework and style of interpretation of the panels as they were and as they are now. For the time being, the paper has tried to demonstrate that there has been a definite step towards more judicialism, but the essence of diplomacy has been preserved.

REFERENCES


D. S.U. The Dispute Settlement Understanding - Annex to the WTO Agreement.