

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/28

17 July 1985

Limited Distribution

Consultative Group of Eighteen
Twenty-eighth Meeting
8-9 July 1985

NOTE ON THE TWENTY-EIGHTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-eighth meeting on 8-9 July 1985. The list of participants was circulated in CG.18/INF/29.
2. It was agreed that the agenda should be confined to the inter-relationship between the implementation of the GATT Work Programme and the proposal of a new round of trade negotiations, the subject discussed at the Group's meetings of February and May 1985. There was no other business.
3. Introducing the discussion, the Chairman said that the earlier meetings had revealed substantial support for the proposal that preparations should be started with a view to a new round of trade negotiations. There was in fact general agreement that negotiations in some form were urgently needed, but not yet on the subject matter and modalities of such negotiations. A proposal had been made that a meeting of senior officials should be convened before the end of the summer to discuss, and if possible reach consensus on these matters, and this would no doubt be one of the elements for discussion at the present meeting. The same issues were also on the agenda of the GATT Council.
4. Since the Group's May meeting a number of countries had announced their intention to submit written statements of their present views on the new round proposal. Four such statements had already been received and others were imminent; these too would be a useful input to the Group's discussion.
5. During the meeting the Group took note of the following written statements on the subject of the new round, all of which have been distributed to contracting parties, with the document numbers indicated: from the Nordic countries (L/5827), from New Zealand (L/5831), from Japan (L/5833), from Canada (L/5834 and L/5836), from the European Economic Community (L/5835), from Switzerland (L/5837) and from Australia (L/5842). In addition, the United States submitted a communication on trade in services, which is distributed as L/5838; it was announced that a statement by the US on the new round as a whole would be submitted shortly.
6. Each of the written statements was introduced to the Group by the member representing the country in question, and subsequently discussed. The main points made in discussion are recorded below.

7. In the discussion of the paper submitted by the Nordic countries (L/5827) it was suggested that the objectives for the new round, as envisaged in the paper, differed from those of the Tokyo Round and other earlier rounds in saying very little about the interests of developing countries: the Tokyo Declaration, for example, had specified the attainment of additional benefits for developing countries as one of the objectives of negotiations. In response it was said that the Nordic countries had no intention of departing from the objectives or the achievements of earlier rounds and indeed wanted to preserve them by strengthening the trading system for the benefit of all contracting parties, including developing countries. The paper called for particular attention to the interests of developing countries, especially the least developed, in improved access to markets. In general, it sought to strike a proper balance between the interests of countries at different stages of development.

8. With respect to the paper submitted by New Zealand (L/5831), it was said that the emphasis on rolling back protectionist measures, as opposed to merely resisting protectionist threats or pressures, was welcome. However, the proposal in paragraph 9(d) regarding non-tariff measures, including grey area measures, said nothing about their elimination; it rather suggested that they should be made non-discriminatory, thus extending to all contracting parties the damage caused by discriminatory illegal measures. It was accepted that this point was valid, and that the paper should call for the elimination or phasing out of restrictions.

9. In reply to a question about the paper's reference to the needs of developing countries (paragraph 7) it was made clear that trade liberalisation by developing countries was not regarded as a pre-condition for special and differential treatment. However, in some areas developing countries had comparative advantage and would not need preferential treatment if GATT rules were properly applied. It would not be expected, for example, that New Zealand should acquiesce in a derogation for competitive developing countries from the export subsidy rules in areas of fundamental importance to its own agricultural exporters.

10. It was also agreed that the links between trade and financial flows (paragraph 9(g)) were very real, and not merely conceptual; this did not imply, however, that the progress and results of a new round should be conditional on progress in resolving monetary problems.

11. With reference to paragraph 4(d) of the New Zealand paper, it was made clear that the last phrase was intended to cover services, inter alia.

12. In amplification of the Japanese submission (L/5833) it was stated that the concern of developing countries that the standstill and roll-back commitment should be made effective was shared by industrialised countries, as had been made clear in declarations at the Bonn Summit and elsewhere. Japan had also given practical form

to this concern in its programme of action on tariffs and non-tariff measures which was described in part in L/5833. In implementation of the programme, the Government had announced on 9 July further improvements in the areas of standards and certification and government procurement. Further measures would be announced by the end of July. Japan accepted that improving the economic environment for developing countries should be a major objective of a new round, but not that better market access for developing countries should be the major objective: better access was needed by everybody. Japan also accepted that full reciprocity could not be expected of developing countries, but believed that developing countries should make some contribution in terms of market access, as their economic circumstances permitted. In regard to services, Japan hoped that Brazil's recent interesting proposal, as Japan understood it, of separate but parallel negotiations on goods and services could be discussed in the proposed high-level meeting.

13. In reply to a question regarding Japan's views on participation in a new round, it was stated that Japan favoured a liberal approach, with participation not necessarily restricted to contracting parties, but was open to other views on this matter. It was accepted that the last phrase of the paper probably went too far: it was of course very much to be hoped that participants in the negotiations would accept their results. It was also made clear that the paper's reference to the "adaptation of the General Agreement" as being among the four basic aims of a negotiation should be understood as implying the need for the GATT system to evolve to meet changing conditions, including the expansion of trade in services. It did not necessarily imply amendment of the General Agreement. Japan had no specific intentions on these matters as yet, but believed that it would improve and strengthen the GATT system if services were brought within it. Finally, the fact that non-tariff barriers were not mentioned in the submission's reference to agriculture was not deliberate; there was no intention to exclude these matters from negotiation.

14. The two submissions presented by Canada, L/5834 and L/5836 respectively, were introduced as presenting initial Canadian views on the new round proposal and as responding to the statement made by India on behalf of a number of contracting parties on 5 June (L/5818). The former was based on consultations with the Canadian private sector and with provincial governments. In addition to setting out Canada's preliminary objectives and priorities for the new round it made some suggestions as to the conduct and management of the negotiations. It suggested that the new round should deal with all the key issues of interest to those countries which are expected to make a contribution to the success of the negotiations and emphasised the high priority attached by Canada to the broadest possible participation.

15. The European Community's communication (L/5835) was presented as a contribution to the acceleration of the preparatory process leading to a new round of multilateral trade negotiations and thus reflecting, in large measure, recent statements by Community spokesmen in the CG.18 and the Council. It was suggested that the

document's treatment of the issue of services confirmed the complexity of the subject and that any discussion of negotiation in an area which, for many developing countries, involved important questions of sovereignty and national infrastructure would be premature. It was also asked what was meant by the assertion that negotiations on services should take place "in the framework of the GATT" and how this would serve to revitalise the GATT. In reply, it was accepted that the introduction of services was not the only possible way of revitalising the GATT, but it was suggested that only the GATT among existing international organisations had a working ethos and negotiating techniques which could usefully be applied to trade in services, much of which was closely related to trade in goods. The phrase "in the framework of the GATT" did not imply the direct application to services of the General Agreement as it stands but since an institutional framework was necessary for any purposeful talks it seemed logical to start by using the facilities of the GATT. The development of the talks would reveal whether new institutions, structures or legal instruments were needed.

16. It was suggested that paragraph 2(c) of the EEC communication could be read as implying that bilateral or sectoral reciprocity should be an objective of the negotiations, and that this would be a dangerous proposition: developing countries in heavy deficit could well be tempted to apply it. The point was made in the reply that the EEC was not arguing in favour of bilateral balancing, but did believe that huge and persistent surpluses, like huge long-term deficits, created dangerous pressures in the system. The case of Japan demonstrated that it was not only border measures that affected trade flows - a principle that was now generally accepted in the context of agriculture. On the issue of the trade/money link - whose importance the Community had been stressing since 1980 - the Community remained convinced that exchange rate fluctuations could have an important effect on trade flows: some current problems made this very obvious. Even if not much could be done about these matters in the GATT, the problem should be recognised.

17. One member said that the Community's position on agriculture, and particularly on the maintenance of the fundamental objectives and mechanisms of the CAP, demonstrated little readiness to negotiate seriously. The spokesman for the Community replied that no contracting party would give up the essentials of its agricultural policies; the Community's position was therefore realistic and positive.

18. It was announced that the submission of United States' views on the new round would be made very shortly, after the completion of consultations with industry and the Congress. The strength of protectionist sentiment in the Congress was still growing and gave rise to intense concern. An absolute majority of both Congressmen and Senators had sponsored the Jenkins Bill on Textiles and the Natural Resources Subsidy Bill also had a good chance of passing in both Houses. It was essential to demonstrate that the multilateral system was still capable of producing results. To start a negotiation required a sufficient consensus, both nationally and

internationally; at neither level was it necessary for consensus to be universal, though participation should include all interested contracting parties. The US was thinking more in terms of transforming the GATT into a permanent negotiating forum than of a negotiating round in the classical sense. It was clear that the issues for negotiation - most of which were contained in the 1982 Work Programme - would vary in their degree of ripeness and it would seem reasonable that if agreement could be reached on a given set of issues, they should be concluded, without waiting for agreement on the totality.¹ The submission would make clear US priorities for negotiation.

19. In answer to the question whether the US would accept, for a new round on goods, the Tokyo Round objectives relating to developing countries, it was said that the US did not believe that all countries now benefitting from special and differential treatment should necessarily do so in perpetuity, but would of course be willing to discuss these matters.

20. It was asked whether to begin discussions on the development of a multilateral framework for services, as proposed by the US, would not prejudge the decision called for by Ministers in 1982 as to whether multilateral action was appropriate and desirable. The reply was that the US was not seeking to decide rules before principles, but made no secret of its belief that negotiations should be held on services under GATT's auspices, aimed at agreement on a set of rules or principles which would serve as the framework for future negotiations based on the exchange of reciprocal concessions. Participation in this work should be open to all interested contracting parties, but it was understood that no country could be obliged to participate.

21. One member commented that the US concept of GATT as a permanent negotiating forum seemed to conflict with the Community's belief that in principle items should be negotiated and results implemented in parallel, and not in succession. It was also suggested that the revitalisation of GATT depended on strict adherence to stable rules, which would be difficult to reconcile with permanent negotiation on systemic issues. In response it was stated that while the value of the "package" approach in earlier rounds was fully recognised, it might not be applicable now, given the difficulty of reaching agreement within the same time-frame on issues of very different degrees of ripeness. Advanced implementation of partial packages should not therefore be ruled out ab initio. Permanent negotiation need not imply instability: GATT must not be condemned to immobilism.

22. The view that universal consensus was not necessary to inaugurate negotiations was held by one member to imply resort to conditional m.f.n., as in the MTN Codes, whereas one objective of a new round ought to be the restoration of the m.f.n. rule. It was pointed out, however, that while conditional m.f.n. was not necessarily desirable, countries could not be obliged to negotiate or to accept the results of negotiations: even the standards code, which was relatively uncontroversial, still had only thirty-six signatories.

¹ US submission since distributed as L/5846.

23. In introducing the submission by Switzerland (L/5837) it was stressed that restoration of the proper functioning of the multilateral system, which could only be achieved through negotiation, was essential if the new round were to produce worthwhile results in terms of market access or any other objective. For this reason the Swiss submission laid particular emphasis on the "normative activities", involving the updating or elaboration of rules, which would have to be undertaken. Such tasks would include the formulation of rules covering new issues. The new round would also include negotiations on market access through the classical process of exchanging concessions. The Swiss submission also stressed the urgency of the need to initiate negotiations. Asked what was implied by the submission's reference to "more dynamic application of Part IV", the speaker said that the application of existing rules relating to developing countries could be made more dynamic without calling into question the status of Part IV.

24. In discussion of the communication by Australia on its objectives for a new round (L/5842), particular attention was paid to the proposal that, given the urgency of the problems facing the trading system, the new round should be completed at latest before the end of 1988. It was explained that this termination date was expected to apply to all elements of the negotiations - though unresolved issues could be negotiated subsequently in a strengthened GATT framework - and was intended to obviate unreasonable and damaging delays such as had occurred during the Tokyo Round. A number of speakers welcomed the idea of a terminal date - it was pointed out that this had been a useful technique in earlier rounds - but some doubt was expressed as to the feasibility of meeting such an ambitious target.

25. A number of members announced that although their countries would not submit written statements, they were firmly of the view that a new round should be held without delay. One member said that in his view the GATT system could be strengthened only through a new round, building on the unique contractual nature of the GATT. The starting point for the agenda of a round should be the 1982 Work Programme. Trade in counterfeit goods and services should also be covered. A meeting of high officials from capitals was necessary to raise the present somewhat circular debate to a level appropriate to the political importance of the issues at stake. Such a meeting should preferably be held in the second half of September, and in any case before the October meetings of the Interim and Development Committees in Seoul.

26. Another member said that his country's interest in participation in a new round, and therefore in a preparatory high-level meeting, was closely bound up with the ongoing reform of its economic system, which was aimed at increasing international competitiveness through increased access for imports, greater transparency and decentralised planning. The new round, which should be open to all interested countries, was also necessary to prevent further erosion of the GATT system. Progress in the classic areas would facilitate discussion of other issues, including services.

27. A member, expressing the point of view of a group of developing countries, said that they favoured a new round provided that the concerns of developing countries were given due attention and priority. To be beneficial, however, the round must be based on a wide, if not universal, consensus. Though it was understood that a high level meeting would be without commitment, the concept of consensus would also help to reassure developing countries which were hesitant about the possible implications of the meeting. The extension of GATT to new areas was not opposed, but the resolution of long-standing problems on goods should not depend on results on services.

28. Following the discussion of national submissions, the Chairman suggested that the debate should focus on two issues, one procedural and one substantive, which must be pursued further in preparation for the July Council meeting. First, all of the submissions discussed at this meeting had called for the convocation in September of a meeting of senior officials whose purpose, as he understood it, would be to enlarge the consensus on the subject matter and modalities of a new round. In order to facilitate a decision on this in the Council, it would be very helpful to have a common understanding of the purpose or mandate of the high-level meeting. Secondly, the question whether or not the negotiation should cover services had been raised in all submissions. The Council would probably be able to agree without difficulty to convene a high-level meeting confined to trade in goods. The Group should therefore consider what would be implied, or not implied, if services were to be discussed at the meeting.

29. Several members stressed the urgency of a decision during July to convene senior officials in September, and the very negative consequences that would flow from GATT's inability to agree on a procedural decision which would carry no commitment to engage in negotiations. One member suggested that the meeting might take the form of a special session of the Council; other possibilities mentioned were a special Session of CONTRACTING PARTIES or an ad hoc meeting. However, most members took the view that the form of the meeting was less important than an early decision to hold it. Though the meeting would be without commitment, it was suggested that a number of difficult decisions now facing governments - relating to textiles, GSP and roll-back, for example - would be facilitated by the start of preparations for a new round. The point was made that informal meetings outside GATT, however useful - and it was clear that the involvement of ministers did move matters forward - must not supplant the normal process of decision-making in GATT, which was the only protection for the trade interests of small countries. For this reason it would be in the interests of such countries to participate both in a new round and in the preparations for it.

30. It was pointed out that nobody had opposed the convening of a senior officials' meeting, but that some developing countries had serious reservations, largely reflecting lack of clarity on the objectives of the meeting. A solution must be found which preserved the fundamental positions of all countries. It would be unwise to fix a date for a meeting of senior officials before

reactions of capitals to the recent submissions by developed countries were available - hopefully by the time of the next Council meeting. However, it might be necessary to pursue discussion of the high-level meeting beyond 17-18 July.

31. One member argued that participation in such a meeting necessarily implied some commitment, politically if not legally, particularly if the agenda were to include a major new issue such as services. Other members said that for their countries participation would imply no commitment of any kind.

32. There was some discussion of the need for a mandate and an agenda for a high level meeting. It was suggested that to try to draw up a formal agenda would be unnecessary and undesirable: the meeting would have to consider all the position papers received, together with any other matter raised by any participant. However, the point was also made that there would have to be some prior consensus on the subjects to be addressed at the high-level meeting. The Chairman observed that as he understood it, the purpose of the high-level meeting would be to pursue consensus on the subject matter and modalities of a new round.

33. On the possible implications of a discussion of services at the high-level meeting, it was said that since the inclusion of services would involve a basic change in the General Agreement, merely verbal resolution of the differences between countries would lead to misunderstanding and further difficulty. The substance of the problem should be confronted now and could not be left to high officials alone; they would not, in any case, take autonomous decisions. The decisions taken in 1982 and 1984 regarding services, under which work was now proceeding satisfactorily, were still binding, and to go beyond them would require a further decision by the Contracting Parties. However, it was pointed out that most national submissions had stressed the importance of services; was it now suggested that it would be necessary to achieve consensus on questions relating to services before a high-level meeting could be convened? In reply it was said that a broader consensus than now existed would be needed if services were to be taken up at high level.

34. Another member stated that the service industries were now a major source of growth for both developed and developing economies, particularly because of the increasing tendency for companies to buy in services rather than develop them in-house. The lack of effective international disciplines in this area threatened to stifle that growth. Any international framework must recognise the legitimate regulatory role of governments, and it was clear that liberalisation could not be an immediate process. However, such GATT principles as non-discrimination, national treatment and transparency should be considered, without prejudice to the ultimate shape of the framework, to see whether they could be applied to services. Separate negotiations on services would be acceptable on the understanding that they would form part of the new round and would be supported by the GATT secretariat. Work on services at this stage should concentrate on conceptual problems

and statistical lacunae. This would not duplicate the work now being done on the basis of national studies of the service sector, since these did not amount to a conceptual framework. However, other members took the view that the essential question - whether or not there was matter for negotiation in the service sector - should be addressed directly.

35. It was suggested that since services were not currently covered by the GATT, as a number of submissions had recognised, their inclusion in negotiations might involve amendment of the General Agreement. Since Part I of the GATT, which refers to "products", could only be amended with the agreement of all contracting parties, it might be easier to pursue the regulation of services outside GATT. In reply it was argued that Part I had already been amended, by the introduction of the Enabling Clause, without any formal process of amendment, and that Article IV dealt with services in the form of cinema films.

36. Several members made the point that, although services was in no sense a North/South issue, the interests of developing countries would be best protected if any process of rule-making on services were to take place openly inside the GATT rather than in more restricted fora outside.

37. Several members expressed interest in the proposal by Brazil that negotiations on services should be clearly separated from those on goods. It was stated that this would not be incompatible with the provision of GATT facilities for negotiations on services.

38. The Chairman concluded that the submission of national statements, which was an important sign of goodwill, had greatly facilitated the narrowing of gaps between different national positions. There were also many similarities between them, notably the shared commitment to the 1982 Work Programme - notwithstanding the belief of many members that it would only bear fruit if carried to the stage of negotiations. However, the submissions should not be seen as definitive, since it was to be hoped that the views of governments would evolve as the discussion proceeded. This meeting had revealed a growing consensus behind the wish to see the July Council meeting agree on a high-level meeting in September. For practical reasons a decision was necessary in July if this was to take place. In his view, it was important to show that GATT was addressing trade problems in a purposeful manner, and to do so in advance of the IBRD/IMF meetings in October.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/27

4 June 1985

Special Distribution

Consultative Group of Eighteen
Twenty-seventh Meeting
13-14 May 1985

NOTE ON THE TWENTY-SEVENTH MEETING OF OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-seventh meeting on 13 and 14 May 1985. The list of participants was circulated in CG.18/INF/28.
2. In opening the meeting, the Chairman proposed that, as already agreed informally, it should be devoted to continuation of the discussion started at the February meeting on the need for action to reverse the trend towards protectionism and away from multilateralism, and on the form this action should take. This proposal was accepted.
3. The Chairman continued that the Group's discussion in February of the desirability of launching a new round of trade negotiations in GATT had revealed general agreement on the need to further trade liberalisation and restore the integrity of the trading system, but not on the practical steps to be taken. Opinion had been divided between those who believed that attention should be concentrated on the implementation of existing commitments and of the 1982 Work Programme, and those who believed that to achieve any further substantive progress it would be necessary to launch a new round of negotiations. This dichotomy was by no means absolute, however; it had also been argued that these two approaches were entirely compatible. It was necessary to pursue these matters further. In particular, GATT must be seen to be accepting the responsibility for its own future, especially in the light of the great interest in our work shown in other fora.
4. The Chairman suggested that the discussion should take into account the statements issued following the series of important international meetings which had taken place since February, and the report "Trade Policies for a Better Future - Proposals for Action" produced at his invitation by an independent study group.
5. The communiqué issued following the Vienna Meeting of EFTA Ministers on 10 May was introduced on behalf of the EFTA countries.
6. The member representing a group of industrialised countries said their position was that a new round of negotiations should be launched as soon as possible in order to reinforce the structure of GATT and carry forward the liberalisation of trade. Their only prior condition for launching would be the attainment of an adequate international consensus. The credibility of such an

effort would require reaffirmation and full respect of the standstill commitment, and progress in the rolling back of protectionist measures, particularly those taken in the years of recession, and continued efforts to implement the Work Programme. It would also be highly desirable, though not a precondition for launching, that progress should be made in other fora in resolving international monetary and financial problems, in parallel with progress in the trade field, since the latter might otherwise be negated by continuing monetary disorder. A particular contribution to the success of a new round could be expected from Japan.

7. Since time was short, an official meeting at high level should be held before the end of the summer, if possible in July, aimed at reaching a broad consensus on the subject matter and modalities of a new round, and on participation and timing.

8. As to the subject matter, all proposals should be seriously examined, though the existing Work Programme would obviously provide the basis for the agenda. Participation should include as many contracting parties as possible, and the round should be launched as soon as possible.

9. Responding to previous invitations to comment in detail on the statements made on behalf of developing countries in document L/5744 and the communiqué issued by the Group of Twenty-Four Ministers in Washington on 16 April, the speaker said that he found in them a number of points with which he agreed, some on which further discussion seemed to be necessary and some on which he disagreed. Among the latter, he could not agree that a negotiation should be restricted to trade in goods, since expansion of trade in services was necessary both for the creation of employment and to facilitate structural adjustment, and it was important that this expansion should be facilitated on a multilateral, not on a bilateral or regional, and therefore probably discriminatory basis. It seemed unlikely that the GATT could be applied as it stood to services or that all services would be included. Nor should a negotiation on services be seen as inimical to the interests of developing countries: many services were crucial to the development process. The GATT must however look at new areas of cooperation if it were not to atrophy, even though a negotiation on services would clearly be a long process.

10. The attitude of developing countries to the concept of reciprocity also seemed too negative. It should be recognised that the Enabling Clause and Part IV both speak of the ability of developing countries to make a larger contribution as their circumstances improved, and it was clear that not all of the existing developing countries would remain in that category permanently. Nevertheless, the main responsibility for liberalisation could not be shifted onto developing countries; each participant should contribute in accordance with its possibilities and benefit in accordance with its needs. Strict reciprocity was not expected of developing countries and the severe financial problems facing many of them could not be forgotten.

11. He could not accept that the sole objective of a new round should be to enlarge access for the exports of developing countries to industrialised markets, though this was certainly a necessary objective. His authorities were already working on possible improvements in market access for developing countries in the context of GATT.

12. On a number of points, however, he was in agreement with the views of developing countries. The 1982 Work Programme must indeed be maintained and pursued, even though a new round would probably be necessary to bring it to fruition. For example, on textiles, it would probably be possible to negotiate a transitional régime between the MFA and full application of GATT rules, including some further liberalisation for the benefit of developing countries, leading into negotiation on textiles in a new round. On agriculture the Community would be ready to negotiate, though the fundamental principles and basic mechanisms of the CAP could not be called in question. Tariff negotiations should concentrate on tariff peaks and on the level of bindings - an area in which developing countries might be able to contribute. It should also be possible to improve access for tropical products in the new round. The content of a new round must be balanced, covering the major interests of all participants. On the importance of standstill and rollback he agreed with the views of developing countries.

13. The timing of a new round was less important than its substance, but the common interest in reinforcing the system could best be served by preparing for a round on the basis of consensus. He therefore proposed an early meeting at senior official level, preferably in July, aimed at reaching a broad consensus on the content, participation and timing of a new round.

14. The proposal for a high level meeting in July was supported by a number of speakers. One member proposed that it should take the form of a Council meeting at the level of high officials, with the objective of reaching a broad consensus on the agenda of a new round, a timetable for further meetings and the date of a ministerial meeting. A possible agenda for a new round could be discerned in the welcome and useful report of the Leutwiler group - as in the Work Programme itself. The need now was to match rhetoric with action. GATT's dangerous inertia meant that decisions would be taken outside, as was already happening. It was self-evident that the world economy was endangered by unsustainable imbalances; the relationship between debt, market access and development financing was equally clear. GATT must now address the trade side of the equation; it was illusory to think that we were more advanced than the financial authorities, which had already agreed a timetable for a series of meetings of the Interim Committee dealing with issues relating to the present financial imbalances.

15. Another member spoke of the urgent need to reinforce the dwindling constituency for liberal trade in his country, where a succession of protectionist initiatives and growing tendencies towards bilateralism and plurilateralism were causing deep anxiety.

The trade deficit was expected to be over \$150 billion in 1985. The over-valued dollar and domestic economic policy were in part responsible for this, but failure to secure agreement on multilateral liberalisation efforts were stimulating a search for other forms of trade action. One current protectionist bill, for example, would impose mandatory retaliation against countries not affording equal treatment in telecommunications trade. Another widely supported bill would roll back trade in textiles to 1981 levels while a third would require countervailing action against imports benefitting from a price advantage on natural resources which was not available to third country producers. His authorities nevertheless believed a new round to be the best hope and strongly supported the proposal for a high level meeting in July. Failing that, he feared that the opportunity to act effectively in GATT would be lost. There should be no preconditions as to the subjects for discussion in the high level meeting; all participants would have their own interests and these should be respected. His country was still committed to the 1982 Work Programme, but it must be recognised that the stage of analysis and study was now over and that concrete results could only flow from negotiation.

16. Asked whether the launching of a new round would result in the withdrawal of protectionist bills, this member said that this could not be guaranteed, but that absence of any positive signals from GATT would certainly exacerbate protectionist pressures and weaken the Administration's ability to resist them.

17. The point was made by another speaker that the purely political commitments contained in the Ministerial Declaration and the Work Programme could only be translated into legal rights and obligations by a process of negotiation, leading to the signature of binding agreements. The Work Programme should be the first item on a negotiating agenda, other points being added as necessary. Most of the countries in the group for which he spoke therefore favoured a new round and supported a high level meeting, preferably in July.

18. Another member said that since September his government had taken several additional measures of liberalisation. Inter alia, Tokyo Round tariff cuts had been further accelerated, the GSP had been improved, tariffs on semi-conductors had been eliminated and the government monopoly on telecommunications had been abolished. It had been announced that in June or July tariff cuts beyond Tokyo Round targets, plus a three-year programme of liberalisation would be inaugurated. There was however a limit to what they could do unilaterally and it was therefore encouraging to see the EEC and other OECD countries coming out in support of the negotiation for which the US and Japan had called as long ago as November 1983.

19. His country was committed to early launching of the negotiation and therefore supported a July high level meeting. As to the subject matter of a round, he agreed that the Work Programme should be the basis for the selection of subjects for negotiation, but we should be flexible enough to accept all subjects of major

interest to other participants. The divergence of opinion on the inclusion of services must obviously be discussed further. Not much thought had yet been given to the modalities for negotiation, but his government was now considering a proposal that tariffs on industrial goods should be abolished by developed countries. This would solve the problem of tariff escalation and obviate the old dispute over the merits of tariff harmonisation versus uniform cuts. On textiles his country, which still faced many import restrictions in Europe even though it was a net importer from the Community, would welcome any moves towards liberalisation.

20. The proviso that a significant number of developed and developing countries should participate in the new round was very important. This need not imply participation by every contracting party, but the essential minimum would probably include, for example, the membership of the CG.18. This must be a multilateral and global negotiation - not plurilateral, regional or North-South.

21. Another member stated that his government's support for a new round - provided that issues of major importance to his country and the West Pacific region generally were adequately addressed - had been publicly stated. They were open-minded on the agenda, but believed that the focus of attention should be on trade distorting measures which previous rounds had failed to deal with properly, in such fields as agriculture, QRs, subsidies, safeguards and structural adjustment and such interests of developing countries as tropical products and textiles. In many of these areas "Trade Policies for a Better Future" provided useful guidance on possible objectives. It would of course be necessary to go beyond strengthening the rules; access to markets must be improved and distortions caused by subsidies reduced. Only by starting the preparatory process could an agenda for negotiation be established. This would not be in conflict with, but rather the necessary complement of, pursuit of the Work Programme.

22. The point was made by another speaker that further progress in many areas of the Work Programme was now stalled as countries withheld potential concessions in anticipation of negotiation. Real impetus must be given to the Work Programme, in conjunction with substantive preparation for a new round. An effective standstill and rollback must be ensured both during the preparations and throughout the round itself.

23. Another speaker argued that the new round proposal had been made in the knowledge that substantive progress on the Work Programme would entail negotiation, and on the assumption that the Work Programme provided the basis for a negotiating agenda. The Work Programme comprised many heterogeneous subjects. Some of these, such as the relationship between the IMF and the GATT and the question of structural adjustment, would entail revision of the contractual framework if they were to be dealt with seriously. Others, such as safeguards, services and intellectual property would also entail enlargement or adjustment of the General Agreement or revision of its mechanisms. There was thus a major

legislative task to be carried out. However, many other elements of the Work Programme, such as tariffs, tropical products and the status of developing countries in the GATT, related to areas of activity that had always fallen within the essential and priority business of the GATT. This suggested a need for concurrent negotiations on two levels - a "classical" round devoted to trade liberalisation and a diplomatic conference to perform the legislative tasks which would be necessary to give the classical negotiation a firm basis of credibility.

24. It would serve no purpose to force anybody's hand or to induce participation by unilateral or prior concessions or to maintain tactical postures which would falsify subsequent negotiations. It was now clear that the negotiations would take place - whether inside or outside GATT. It was much to be preferred that they should be held in orderly fashion inside the GATT. His country therefore favoured the new round. It should be so conceived as to have a good chance of success, restoring the rule of law in trade and creating a balance of rights and obligations for all contracting parties in properly defined areas of negotiation.

25. It was stated that a number of East European contracting parties would be ready to participate in a new round if it had even a reasonable chance of strengthening the GATT and promoting trade liberalisation. They had a real interest in the benefits of international trade, especially in terms of improved efficiency of national economic management systems. The basic framework for a new round already existed in the Work Programme, and the report of the Leutwiler group was also a timely and thought-provoking contribution. However, it was important that the smaller and poorer contracting parties should not be subjected to additional restrictions by major powers, such as trade restrictions imposed for political reasons. Situations of this kind would also have to be tackled in preparing for a new round.

26. Another speaker, while welcoming the tone and content of the statement made on behalf of the European Community, expressed concern about the Community's increasing discrimination against East European countries, as illustrated by the maintenance against them of quantitative restrictions which had been lifted from developing countries. The grant of special and differential treatment to developing countries did not carry with it a waiver from basic GATT obligations, such as the MFN clause, whose respect was especially necessary in relation to paragraph 7(i) of the Ministerial Declaration. It was obvious that resort to bilateralism would be very damaging for smaller countries, but even the majors would suffer from it since a narrow view of reciprocity would require the larger trading countries to match their export capacity to the import capacity of their smaller partners.

27. A number of speakers suggested that an early decision to convene a high-level meeting for the purposes which have been suggested would be premature. Time was needed to reflect on this proposal and on the recent series of formal statements relating to the idea of a new round. The experience of the Tokyo Round had

shown that a new negotiation would not solve all problems: indeed, full implementation of the Work Programme, which the inauguration of a new round would merely delay, would be a more effective answer to the crisis.

28. One member argued that while all agreed on the need for action to preserve and strengthen the multilateral system, the best way to achieve this was through strict adherence to GATT rules. All contracting parties, and especially the most powerful of them, should also follow macro-economic policies conducive to a healthy trading environment and should accept a degree of discipline in monetary policy. Trade policy actions, whether individual or cooperative, must be in line with GATT obligations. Joint action should normally take place in GATT or in compliance with GATT rules, and could take the form of general negotiations. But many practical questions, as to objectives, timing and duration, for example, must be answered before any commitment to negotiate were accepted. Just as there was no reason to fear negotiations in GATT, so there was no reason to negotiate under pressure, or without prior agreement on the subject matter. Whether in GATT or elsewhere, negotiations would have to be consistent with the GATT obligations of the participants.

29. Another speaker agreed that developing and developed countries shared many common perceptions. He welcomed the recognition of this fact in the response which had been made to the November statement on behalf of developing countries (L/5744). This statement made it clear that the developing countries were not opposed to liberalisation: many of them were continuing to liberalise and to increase imports despite very adverse economic circumstances, because they recognised that liberal trade would increase their own welfare and that of the entire trading community. Developing countries did not reject the idea of further participation in GATT obligations but their capacity to liberalise further depended crucially on access to developed markets. The persistent disparities between countries at different stages of development meant that the principle of special and differential treatment was still appropriate.

30. It was also clear from L/5744 that developing countries were not opposed to negotiations, but their experience of earlier rounds had not been altogether positive and if they were to participate in new negotiations these must follow the basic principles of the General Agreement. The GATT must be effective in its traditional areas of concern, giving full effect to elements which have been introduced in order to make the trading system more equitable. This would require concentration on GATT's proper areas of competence and implied that there was no place for services. Even the Leutwiler report had said that an effort to bring services within the GATT framework would have no future if the GATT failed to discharge its central responsibilities. In particular it would be necessary to see how the discussion of a possible new round was related to the most important element of the ministerial Work Programme, which was the standstill and rollback commitment in

paragraph 7(i) - for this was a matter not of negotiation but of respect of existing commitments. It was therefore necessary, if the system was to remain credible, to comply with the Work Programme commitments and not to try to move too fast in organising merely procedural events.

31. Other speakers also underlined the need for substantive action, rather than procedural or merely verbal solutions. The importance of parallel action in the monetary and trade fields was also stressed, the point being made that protectionist policies, especially subsidies, by depressing the revenues of efficient producers and misallocating resources in the protecting countries, necessarily lead to restrictive monetary policies and hence to inflated interest rates and exchange rate distortions. From its inception the GATT had been closely linked with the IMF and there was now a need for a reform of the international economic system as a whole. In the trade field what was needed was a return to full application of the General Agreement, plus the liberalisation which was implicit in many areas of the Work Programme. The proposals for a new round and for a preparatory meeting would be further considered, but they could not be allowed to undermine the implementation of the Work Programme.

32. It was suggested that a major initiative such as the launching of a new round could not be successful if it were made against the wishes of an important group of contracting parties, and that the creation of confidence was therefore essential. Respect of the standstill and rollback commitment by developed countries was crucial here. Developing countries which were liberalising despite severe resource constraints would of course be interested in any dialogue aimed at expanding and liberalising trade, but must be allowed time to examine all the implications of a new round for their own economies. A danger of failure caused by misunderstanding was such that further discussion in the CG.18 seemed very desirable.

33. Another speaker referred to the position taken by Ministers of the Group of Twenty-Four developing countries in their communiqué of 16 April. The economic difficulties of developing countries, which have contributed greatly to world economic adjustment and were not responsible for the present crisis, must not be aggravated by any retreat from existing GATT provisions in their favour. Each contracting party must be convinced that its own interests would be respected in a new negotiation, and for this reason adequate time to consider the proposals which had been made in this meeting was essential.

34. The point was made that the 1982 Work Programme was an agreement between governments, not merely an agenda for negotiation, and could not be renegotiated or set aside. The proposal of a high-level meeting was interesting and important, but needed careful consideration. It was not a sufficient argument for a new round that in its absence protectionism would increase - protectionism was already increasing among the major proponents of the round, which raised doubts about their real motivation in putting the idea forward.

35. One member said that the group of countries for which he spoke hoped to be able to respond to the proposals which had been made in the forthcoming Council meeting or at the next meeting of the CG.18. As trading nations, their response would be influenced by the trading climate and by any developments in relation to their own access to markets. It would be in the general interest to reach consensus peacefully, and without undue pressure, on the new round proposal, which had been described as having no pre-conditions attached to it.

36. Another member suggested that OECD countries should be held firmly to their undertaking to roll back protectionist measures as economic circumstances improved. Rollback should be associated with appropriate measures in the monetary and financial fields to enable adjustment to be made less painfully. Trade liberalisation did not necessarily require the launching of a new round. However, there was a danger that the onset of another recession before a new trade initiative were taken would mean the loss of an important opportunity. There must be broad consensus among contracting parties in favour of a round or the GATT would lose its credibility. Confidence-building measures by developed countries, if not a pre-condition, were at least very desirable. As to the timetable, it appeared that divergences were narrowing. The suggestion that a new round might be inaugurated in Brussels was a welcome sign of the EEC's commitment, but thought should perhaps be given to launching it in a developing country.

37. Another member said that his country's conclusion of a free-trade area with the United States in no way affected its commitment to liberalisation on an m.f.n. basis. They were interested in seeing the start of a new round in the GATT and supported the proposal of a high-level Council meeting. It should be noted that L/5744 did not say that all developing countries were opposed to the inclusion of services in a new round, but rather that a negotiation initiated by developing countries would not include them. His country thought that they should be included and wished to be involved from the start in the formulation of multilateral rules (which should respect the concept of special and differential treatment for developing countries) in this sector. The history of the Subsidies Code, in which individual signatories rather than the Code committee as a whole were able to decide on the terms of accession by new signatories, should not be repeated.

38. One member said that in the past twenty-five years his country, despite great poverty in resources, had been able to lift its GNP per capita from barely \$80 to nearly \$2,000. It was now the world's thirteenth largest trader, and the fact that it was still a poor country in terms of per capita income exemplified the very low marginal income from international trade. Since trade accounted for 85 per cent of its GNP any fluctuation of trading conditions immediately affected living standards and any threat to free trade was taken very seriously. The growing threat of protectionism in the USA, which accounted for over one-third of his country's trade, was therefore of grave concern. A US surcharge,

for example, would have an immediate and devastating effect. Other major questions had to be confronted, such as the stagnation of the Work Programme, which must be given a new impetus, the emergence of new trading powers and the problems caused by the overwhelming competitive strength of Japan. Against this background, it would be understood that his country, like all others, must assess in the light of its own interests the proposal for a senior level meeting and any alternative proposals for strengthening the GATT system which could be made, including parallelism between the implementation of the Work Programme and a new round of negotiations.

39. Summing up the discussion, the Chairman noted the heavy emphasis placed by many speakers on the need for parallel progress in the trade and monetary fields. It would be impossible to solve the problems of the world economy without good trade policies, but trade policy alone, however good, would not be enough. The discussion at this meeting had been interesting and constructive; in particular it had demonstrated the will of the contracting parties to reassert the responsibility of GATT for the management of the trading system it embodies and to give new momentum to the liberalisation process. Of the concrete questions discussed, one of the most important was the relationship between the implementation of the 1982 Work Programme, which was still unanimously supported - and notably the standstill and rollback commitment - and the proposal made by a substantial number of members that preparations should be started with a view to launching a new round of negotiations. The relationship of a new round to Part IV and other provisions for special and differential treatment of developing countries, and that between the process of trade negotiation and concurrent efforts in the monetary field were also of great importance.

40. The proposal that a meeting of senior officials should be convened in order to enlarge the consensus on the subject matter and modalities of a new round had been widely supported. All members of the Group had indicated readiness to continue discussion of this proposal, but a number of members had asked for more time to reflect on the matter. He therefore intended to pursue active consultations with Geneva delegations to see if further progress could be made. These questions could also be discussed further in the June meeting of the GATT Council. Meanwhile it should not be forgotten that trade was going on, and policy decisions were being taken. There was no time to waste.

41. The Group took note of the Chairman's suggestion that the next meeting of the Group should be held on 4-5 July, and agreed that this should be confirmed in consultation with delegations.

Other Business

42. It was suggested that consideration should be given to the possibility of making the proceedings of the CG.18 more transparent by admitting additional contracting parties to its meetings - if necessary without the right to speak. It was also suggested that the Chairman of the Committee on Trade and Development should be invited ex officio. The Chairman undertook to consult on these points.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/26

28 March 1985

Special Distribution

Consultative Group of Eighteen
Twenty-sixth Meeting
27-28 February 1985

NOTE ON THE TWENTY-SIXTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-sixth meeting on 27-28 February 1985. The list of participants was circulated in CG.18/INF/27.
2. There was no formal agenda for this meeting. The Chairman, in opening the meeting, referred to the three questions which he had submitted to members of the Group in advance and proposed that these should be regarded as comprising the agenda. They were as follows:
 - (i) What are the concrete results which each member would wish to see emerge from the Work Programme, and over what time-scale?
 - (ii) What actions would each member's government be prepared to consider as a possible contribution to the achievement of these results?
 - (iii) What can be done to give a sense of urgency and forward movement to the work, bearing in mind the pressing and generally recognized need to strengthen and restore confidence in the trading system?
3. The Chairman explained that his reason for submitting these questions to the Group was his perception of a virtually universal sense of unease about the apparent deterioration in the observance, and hence the efficacy, of GATT disciplines and the consequent erosion of confidence in the system. There appeared to be wide agreement that positive action should be taken in the GATT without delay to reverse this deterioration. He hoped that the CG.18, as the only GATT forum in which the overall direction of policy could be discussed freely and at high level, could discuss these issues frankly and constructively, because he saw a real possibility that the GATT would lose control of events in the field of trade policy unless a conscious effort were made to take matters in hand now. Though useful work had been done in the implementation of the Work Programme there was still a need to steer trade policy on to a more positive ground.

4. It was agreed that discussion should be based on the three questions submitted by the Director-General. The Group also had before it the statement made on behalf of developing countries at the fortieth Session of the CONTRACTING PARTIES on the improvement of world trade relations through the implementation of the Work Programme of GATT (L/5744). There was some discussion of the relation of work in GATT to forthcoming meetings in other fora, notably in the IBRD/IMF Development Committee.

5. There was no disagreement in the Group as to the disturbing deterioration of trade relations and of the effectiveness of GATT disciplines as a guide to national policy. The Group was warned against the danger of exaggerated comparisons between the present "disarray" of the system (particularly given the extreme pressures to which it had been subjected) and its strength and cohesiveness in earlier years. However, all members recognized the need for action to reverse the current trend towards increased protectionism and away from multilateralism.

6. The discussion therefore focussed on what form corrective action might take, and in particular on the question whether it was sufficient to focus efforts on the implementation of existing commitments and of the ministerial Work Programme, or whether to achieve substantive progress there was also need now to agree on the launching of a new round of multilateral trade negotiations.

7. Among the arguments most frequently advanced in favour of the launching of a new round was the contention that there was a growing threat to the integrity, and even survival, of the multilateral trading system and that nothing less than a major cooperative effort, with full political commitment, would suffice to restore confidence in it. One member called for a positive signal by governments to public opinion that GATT is functioning effectively. Such a signal was urgently necessary to reestablish the rule of law, and to reverse the trend towards discretionary and arbitrary policies which inevitably benefitted the powerful at the expense of smaller and weaker contracting parties, and whose continuation would at some stage bring about a fundamental transformation in the conduct of trade policies after which the rule of law would for practical purposes cease to exist. Although the launching of a new round entailed the risk of a very visible failure, this risk was far smaller than that of continued erosion leading to collapse of the multilateral system.

8. It was suggested that implementation of the Work Programme had now reached a stage at which further progress could be made only by lifting the work onto the plane of negotiation. Like all institutions GATT worked through successive impulsions, and the effective life of these became shorter as the pace of events increased. The impulsion provided by the Ministerial Meeting had now expired, and the impetus of a new round was needed to demonstrate that GATT was moving forward.

9. Another member said that simply to maintain entrenched positions implied a retreat from the concept of negotiation as a means of solving difficulties and would lead to the "balkanisation" of GATT through a proliferation of grey area sub-systems. The GATT was faced by challenges in three areas: those arising from the implementation of GATT objectives, e.g. trade liberalization; those arising from the need to reinforce the GATT system and improve its functioning; and those arising from the parameters within which trade policy must operate, such as the link between trade and monetary policy. As a means of dealing with these challenges, a new round would have the advantages of limitation in time and the package approach. His country would be willing to participate in a negotiation structured on three levels:

- A diplomatic conference among contracting parties on the possible enlargement of the system and on problems which would not be solved within GATT alone.
- Negotiations to assist the implementation of paragraph 7(i) of the Ministerial Declaration.
- Classical negotiations on tariffs and non-tariff barriers.

Negotiation could take place simultaneously on all three levels, to allow useful linkages to be made where possible.

10. Another member spoke of the dangers, particularly for its trading partners, of his country's possible loss of faith in the multilateral system. The economic recovery had not so far produced sustained growth, and it appeared that only trade liberalization would achieve this. He saw no alternative to a new round if the multilateral system was to be preserved, and the time available was very short; if the process were not started in 1985, mid-term elections in the US in the second half of 1986 would make it impossible to begin before 1989. If no consensus could be achieved for the launching of new negotiations bilateral and plurilateral approaches to trade liberalization would be found, probably resulting in agreements on non-tariff barriers based on the conditional MFN concept. Preparations for a new round could start with no commitment to negotiation proper, and even after negotiation had started there would be no commitment to accept its results until the process had been completed.

11. A number of members, while sharing the view that the GATT system was being undermined by increasing protectionism and uncertainty, questioned whether negotiations in the form proposed by some industrialized countries were the best response to the threat. It was pointed out that one major cause of the deterioration was failure to observe the commitments in paragraph 7(i) of the Ministerial Declaration and to implement in full the 1982 Work Programme. The proponents of the new round had not yet made it clear what purposes it would serve which could not be achieved through serious application to the Work Programme. There was a need to rebuild confidence on the basis of a political determination to observe existing obligations and improve the

current trading environment. Confidence building measures should provide the assurance that negotiations will not modify the balance of rights and obligations. It was also suggested that just as implementation of the Work Programme had been impeded by insistence that all elements should progress together, to embark on an ambitious and comprehensive negotiation would freeze progress in areas where it might otherwise be possible to agree solutions in the short term. Many of the problems confronting the trading system were identified in L/5744, which also suggested that in certain areas of special interest to developing countries positive results could be achieved very rapidly. That document also underlined the need to make progress on substance, not merely on procedure, in the implementation of the Work Programme.

12. One member pointed out that launching new negotiations would not necessarily put a stop to protectionist initiatives; major restrictive measures had been introduced during the Tokyo Round. A decision to launch a new round could not be dissociated from its content, and it was clear that while some of the candidates for negotiation, such as safeguards, were clearly within the classic areas of GATT concern, the inclusion of services would be an extension of the GATT. This gave rise to a number of questions - as to the applicability of GATT disciplines in the services sector, the objectives of negotiations on services and the areas to be covered - on which contracting parties would need enlightenment before they could be expected to respond.

13. Another member argued that the only effective way to preserve the trading system was to bring national policies, particularly those of major trading countries, into line with GATT principles. If ministers were to be able to resist protectionist pressures, they must be convinced that multilateral agreements would be respected by all, and would not be revised unilaterally. New negotiations would have no meaning unless their results were guaranteed by effective disciplines, and for this reason safeguards was a vital issue. Everybody, including developing countries, wanted to reinforce GATT and promote liberalization, but there was no consensus as yet on how this should be done. Some advocated an immediate start on comprehensive long-term negotiations, with no guarantee that protectionist tendencies would be halted. Others preferred liberalization through respect of GATT rules and negotiations of limited scope, within GATT competence and with guaranteed respect of standstill and rollback commitments.

14. The safeguard problem was seen by many speakers as the most critical element in the Work Programme, and an early solution as being vital to preservation of credibility. It was suggested that even if disagreement persisted on the question of selectivity, it would be desirable to make as much progress as possible on discrete elements of the problem - the "building blocks" approach.

15. The point was also made that further progress could be made under the Work Programme, for which the necessary machinery already existed, and that this would contribute to confidence. To launch a new round would block this process: it would also hold back the necessary process of enlargement of GATT's membership. Another member, however, said that one of the benefits of earlier rounds of negotiation had been that they had facilitated the admission of additional countries to GATT membership; he suggested that a list might be drawn up of the countries which acceded to GATT in the Kennedy and Tokyo Rounds.

16. One member, noting his country's heavy dependence on trade, and especially on the US market, stressed the importance of joint action in GATT to prevent protectionism becoming legitimized by custom and thus built in to future negotiations. If further progress on the issues central to protection could not be made in the context of the Work Programme, other means must be found. But negotiation should not begin without a firm guarantee of further liberalization and against revival of protectionism.

17. Another member said that there seemed to be agreement that the Work Programme was still valid. Even on the new round, divergences were on its timing and content, rather than on the principle. Developing countries did not want the Work Programme simply to be transferred unfinished into a negotiation and they were worried about the linkages that might be developed from the inclusion of services in a negotiation. It would be helpful if two points could be clarified: first, how would the implementation of the Work Programme be affected by a new round; second, what would be the implications of a round for developing countries, in terms of trade opportunities and increased obligations? In response to the questions posed by the Director-General, his country would as a minimum expect the Work Programme to be pursued urgently, with the respective committees having a timetable to report substantively to this Group, rather than mere extensions of their mandates. It would also be desirable to discuss in detail such matters as the implementation of MFA agreements and its effect on investment in textiles. Developing countries would be prepared to reaffirm their commitment to the multilateral system and to completion of the Work Programme, recognizing that this would involve negotiation, to which they would be prepared to contribute. Without prejudice to anybody's position on a new round, pursuit of the Work Programme should now be given top priority.

18. It was argued that the implementation of the Work Programme had been by no means unsuccessful, particularly given the background of massive unemployment, and trade had not been stifled. The GATT had been more successful in its own field of competence than the monetary organizations and should stop advertising its failures. Work Programme commitments and deadlines had largely been respected: protectionist pressures had been resisted and the impact on developing countries of measures taken had been very small. Least developed countries would benefit from free entry for all industrial products under the GSP and it might also be possible to adjust origin rules in their favour. Examination of the

different elements of the programme suggested that further progress was possible but in several areas would entail negotiation. Solution of hard-core difficulties would require give and take, leading to a better balance of rights and obligations among contracting parties. Complete satisfaction for all would never be possible, however; the losing side in a panel case would always be likely to blame the dispute settlement system, for example.

19. There was general agreement that the Work Programme must not be neglected in favour of a new round, but many speakers saw no contradiction between them. Indeed, the new round was seen by many speakers as the necessary culmination of the Work Programme. One member suggested that outstanding items of the Work Programme should be the basis for consultations on the agenda of a round, though they should not be regarded as an exclusive agenda. It was also suggested that a Special Council meeting might review the Work Programme and agree a timetable for completion of its major elements, the start of a new round being contingent on this timetable. Another speaker, who drew attention to the tendency of major countries to act outside the GATT system, often with more regard for the interests of non-Contracting Parties than for those of smaller GATT members, asked if a major effort should not be made to resolve important outstanding questions over the next six to twelve months before launching a new round. Some other members, however, thought that negotiations would be needed to complete the Work Programme and that the two processes were not sequential.

20. In discussion of the statement made on behalf of developing countries made at the fortieth Session (L/5744), it was suggested that developed countries had wrongly perceived it as negative on the question of negotiation. In fact, the willingness of developing countries to initiate negotiations, provided the Work Programme were first completed and the negotiations were confined to trade in goods, was clearly stated. In large part the statement provided answers to the three questions posed by the Director-General at the outset. The proposals made in this paper should be the point of departure for any meaningful action in GATT, on the basis that the ideas contained in it, and particularly the principle of more favourable treatment for developing countries, would not be questioned by the major trading partners. Several speakers from developed countries welcomed the readiness expressed in the statement to discuss the totality of barriers to trade and the stated objective of strengthening the GATT system. It was suggested, however, that it was not realistic to make a distinction between the preservation of the multilateral system and its strengthening, and to ask that one come before the other. Several members also said that the concept of a negotiation confined to trade in goods would not be acceptable. Services and other new issues must at least be discussed in GATT, even if it was not yet clear if they could be successfully negotiated. One speaker said that although the reduction of barriers to the exports of developing countries might be one basic objective of a negotiation, all participants would have their own objectives and must see prospects of achieving them. In answer to the point that

developing countries should embrace the benefits of liberalisation of their own economies, and of their mutual trade, it was said that an attempt was being made to organise negotiations among developing countries under the aegis of the UNCTAD.

21. It was pointed out that previous rounds in GATT had dealt with known quantities; in advance of any further round, inevitable though it might be, it would also be necessary for participants to understand the ground rules and potential implications. The fact that OECD countries did eighty per cent of international trade in services, for example, might be seen as giving them a strong negotiating position.

22. It was suggested that an early decision should be taken to set in motion the preparations for a new round, possibly at a high-level meeting to be held in the coming months. Such a meeting might take different forms - a Special Council or a Special Session of CPs for example - but the essence was that it should not be too long delayed. One member advocated a July meeting to inaugurate the preparatory work, noting that participation in this work would of course commit nobody to negotiation. Among those who favoured an early meeting, views differed as to the degree of publicity that should be given, some favouring a low-key approach, and others a highly visible signal to the trading community. Some members however cautioned against premature discussion of procedures and timetables for the preparation of a new round, because of the risk of subsequent disagreement on more substantive questions.

23. Many references were made to the influence of monetary policy and the current instability of money markets on the trading environment. It was suggested that these factors were among the main reasons for trade tensions and that to attempt to resolve the problems of the trading system while monetary disorder continued would be pointless. There was no dissent from the view that corrective action was needed in the monetary sphere, but several members argued that to delay trade negotiations on this account would be irresponsible, since GATT could have no direct influence on monetary policy and the monetary situation could in any case be very different by the end of a round. To do nothing in the trade field was to run the risk of letting trade policies become the prey of current monetary difficulties. It was suggested, however, that in his contribution to the forthcoming special meeting of the IBRD/IMF Development Committee the Director-General should make clear the concern of the Contracting Parties about the additional trade tensions stemming from monetary and macro-economic policies.

24. Concluding the discussion, the Chairman suggested that more attention should be paid to the concrete interests of Contracting Parties and less to abstractions. It was clear that at present the trading system needed a positive signal from the GATT, but the signal must be honest, and this implied that the Contracting Parties should be ready to deal effectively with the problems for which GATT was responsible. There were certainly important problems in the economic environment which were outside GATT's control, but this could not justify failure to meet our own

responsibilities. The 1982 ministerial meeting had given a signal of readiness to try to move the system forward, but with the expiry of the 1984 deadline for most of the Work Programme that signal had lost its force. We should not be deceived by the current strength of trade flows. The GATT had never been totally respected, but the erosion of respect for the rules was now palpable.

25. It was important to bridge the remaining area of disagreement between those who wish to concentrate on the work now in progress under the Work Programme and those who wish to go a stage further. Persistence of this gap would create blockages; the ability of countries to move in particular areas was already perceived as dependent on progress elsewhere. The broader implications of the questions he had put before the Group could be better appreciated if the words "trade cooperation" were substituted for "Work Programme". The CG.18 should meet again soon to discuss these issues further.

26. There was a short discussion of the desirability of calling a further meeting of the Group in April or early May. It was agreed that the Chairman would propose a date after consultation with delegations.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/25

26 November 1984

Special Distribution

Consultative Group of Eighteen

Twenty-fifth Meeting

25-26 October 1984

NOTE ON THE TWENTY-FIFTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-fifth meeting on 25-26 October 1984. The annotated provisional agenda was circulated in CG.18/W/84 and the list of participants in CG.18/INF/26.

2. The agenda was as follows:

1. The Present Status of the Ministerial Work Programme
2. Other business.

Item 1 - The Present Status of the Ministerial Work Programme

3. The Chairman proposed that the Group should organize its discussion of the ministerial Work Programme under three heads: (i) consideration of certain specific items on which discussion at the level of the CG.18 might help to remove outstanding difficulties. The subjects he would suggest were safeguards, agriculture, quantitative restrictions, dispute settlement, services and trade in counterfeit goods, but members could of course raise any subjects they thought fit; (ii) the place of the Work Programme in the wider context of international discussions on trade issues during 1985; (iii) the handling of the Council's report on the Work Programme at the fortieth Session and the results expected from the Session.

Safeguards

4. The Chairman said that attempts to negotiate a general solution to the safeguards problem over the past ten years had failed essentially because it had been impossible to reach agreement on the crucial issue of selectivity. In recent months efforts had been directed towards reaching agreement on certain of the elements specified in the ministerial decision of 1982 (the "building blocks approach") in the hope that this would create confidence and lay the basis for a comprehensive agreement. Referring to an informal paper by the secretariat on the possible content of a comprehensive agreement, he said that its basic thesis was that problems of adjustment to injury caused by imports which are not dumped or subsidized should be dealt with through the non-discriminatory application of Article XIX. Problems arising from dumping or subsidy should be dealt with under Articles VI and XVI and the Subsidies and Anti-Dumping Codes. Restrictive measures not consistent with GATT Articles should be phased out.

5. In order to structure the discussion the Chairman suggested that members should focus on three main issues: (i) could agreements on certain elements be reached before the conclusion of a comprehensive agreement; (ii) could any such elements be implemented in advance of a comprehensive agreement and (iii) what should be the content of the Council's report to the CONTRACTING PARTIES on the work done so far and on future prospects.

6. The Chairman of the informal group on safeguards commended the secretariat paper; he saw no conflict between the paper's outline of a comprehensive agreement and the work done hitherto towards agreement on specific elements. The two approaches were in fact complementary. An important conclusion for further consultations on the matter was that the solution should be a global one, even if it were arrived at through a step-by-step process where partial agreements would materialize in such a way as not to jeopardize or block a comprehensive agreement.

7. All members who spoke emphasized the necessity of agreement on the safeguards problem for the proper functioning and credibility of the GATT. There was also complete agreement that the objective was and must remain the achievement of a comprehensive agreement. The secretariat paper was in general welcomed as a useful input to the work. Among other specific comments, it was pointed out that the terms "selectivity" and "non-discrimination" should not be used as if they were inter-changeable, as the paper tended to do.

8. The main difference of opinion within the Group was between those members who believed that negotiation, and if possible implementation, of certain "building blocks" would facilitate a general agreement and those who feared that partial agreements would reduce the pressure to confront and resolve the central issues.

9. A number of members argued that since it was highly improbable that an overall solution would be attained in the near future, it would be helpful to clear the ground and maintain momentum by reaching agreement on some of the key issues, such as degressivity, duration and surveillance of safeguard measures. Most of these members said they would be ready to implement partial solutions, particularly if there were general agreement to do so, and some would consider implementing stricter obligations on transparency, for example, even on a unilateral basis. It was also suggested, however, that it would be perfectly acceptable to make the implementation of any partial agreement conditional on achievement of a global solution, if prior implementation would cause difficulty for other contracting parties. One member suggested that partial agreements could be time-limited, falling into abeyance if full agreement were not reached by a specified date.

10. Other members, while not opposing the block-building approach, felt that it would be difficult, and perhaps undesirable, to agree, and particularly to implement, separate elements in the absence of a global solution, as this might prejudice commitment to the overall objective. It must also be noted that the "building blocks" varied greatly in importance. A comprehensive agreement

should cover all products and all types of measures, whether applied under the General Agreement or not, and should bind all contracting parties. One member insisted that a balanced agreement must include agriculture, whose virtual exclusion from the present safeguard system, caused by what amounted to permanent safeguards by many importing countries, was much to be regretted.

11. The suggestion was made that a comprehensive safeguards agreement should include provisions for special treatment of developing countries; this was thought by some members to be difficult to reconcile with non-discriminatory application of safeguard measures. The point was also made that the power of contracting parties to retaliate or to secure compensation for damage suffered varied greatly, and that uniform rules on these matters might not be appropriate.

12. The recent proliferation of illegal protectionist measures was deplored by several members, who urged that these should be eliminated in accordance with procedures to be agreed. Safeguard measures should be taken only in emergency, not used as a tool of general economic policy.

13. The Chairman concluded that the discussion had demonstrated a general agreement to intensify the pursuit of the overall objective and the discussion of the maximum number of elements. However, it seemed clear that agreement could not be reached before the Session. He hoped that representatives would send positive instructions to their Geneva delegations for the continuation of the work.

Dispute Settlement

14. The representative of Canada circulated on behalf of a number of delegations a proposal for the improvement of procedures relating to the appointment of panels. The proposal was that a roster of panelists should be established and agreed by the CONTRACTING PARTIES and that in case of disagreement on panel membership between the parties to a dispute the Director-General should be authorised to complete the panel, at the request of either party, by appointing panelists from the roster. She explained that although this would not solve the major difficulty in the dispute settlement process, which was in securing the prompt implementation of panel reports, it was seen by the countries proposing it as a useful step towards avoidance of delay and greater general efficiency in the dispute settlement process.

15. Several members expressed support for this proposal and none opposed it. However, the point was made that permanent or professional panelists might be inclined to stress the element of arbitration in panel work at the expense of the conciliation function and that for this reason the majority of panelists should continue to be drawn from national administrations. An academic approach to dispute settlement would not be helpful. Permanent panelists should therefore have recent and direct experience of international trade and of the functioning of the General Agreement, and they should be reasonably representative of the contracting parties. One member suggested that the Director-General should consult the parties to a dispute before appointing a panelist from the roster, rather than simply informing them, as the draft suggested.

16. The Chairman emphasized that nothing in this proposal, as he understood it, would affect the functions and responsibility of the Council, to which the proposed composition of panels would continue to be submitted for approval. He concluded that the Group could clearly not approve a proposal it had received so recently, but that there was no opposition to its being submitted to the Council for decision. Before any such decision were taken arrangements would be made for further consultations on the matter. The proposal has since been considered by the Council and forwarded to the CONTRACTING PARTIES for their approval (L/5718/Rev.1).

17. The representative of Canada also circulated for information a proposal relating to the adoption and implementation of panel reports, which has since been distributed as document L/5720. This was not discussed in detail, but a number of members expressed support for the ideas embodied in it.

18. Several speakers said that the central problem in dispute settlement was the political will, or lack of it, to accept and implement the recommendations of panels. Improved surveillance by the Council might be helpful in this regard. The basic differences of opinion over the dispute settlement process which had manifested themselves during the 1982 Ministerial Meeting still needed to be resolved.

Trade in agriculture

19. The Chairman said that this was an important element of the Work Programme and that the momentum which had been achieved must be maintained.

20. A number of delegations expressed regret at the postponement of the Agriculture Committee's next meeting, which seemed to imply a retreat from the basis for agreement which had been reached in July. It was said that the options now available were to return to something very close to the July consensus or to accept that the present lack of discipline in agricultural trade could not be remedied. It was also stressed that the recommendations of the Agriculture Committee, when they were agreed, would be applicable to the policies of all contracting parties.

21. Other members said that they had every interest in substantive progress towards a comprehensive programme of liberalization of agricultural trade. They would be very active in the pursuit of such a programme in the context of a new round of negotiations, but the achievement of a reasonable balance of rights and obligations would be a sine qua non.

22. The Chairman concluded that in view of the postponement of the Agriculture Committee it would probably be necessary to suspend the closure of the next meeting of the Council in order to allow it to receive the Agriculture Committee's report. It was important that the high hopes vested in this work should not be disappointed. He paid tribute to the work of the Chairman of the Committee, Mr. de Zeeuw.

Quantitative Restrictions

23. The Chairman said that the Group on Quantitative Restrictions and Other Non-Tariff Measures had made a number of specific recommendations for further work in this area in its report, which would be presented to the CONTRACTING PARTIES through the Council. The Group would inter alia recommend that it should continue its work with a view to presenting findings and conclusions to the 1985 Session.

24. Some members expressed satisfaction, even though the objectives of the Ministerial Declaration had not been fully met, that the Group had been able to reach an understanding. Much would of course depend on the manner of its implementation. However, one member pointed out that the Ministerial Declaration called for the elimination of trade barriers not consistent with the General Agreement. He suggested that where this could not be done immediately the countries applying such measures might seek to convert them into non-discriminatory quotas, with a specific deadline for their elimination.

25. The Chairman said that the progress made was to be welcomed but that it certainly gave no ground for complacency. The work must be pushed further.

Trade in Counterfeit Goods

26. The Chairman said that consultations on this subject had encountered a difficulty which was essentially procedural; some contracting parties advocated the creation of a formal body in which to carry out the examination of the possibility of joint action in the GATT, while others wished to continue the process of informal consultation. He expressed the personal view that throughout the implementation of the Work Programme there had been excessive concern with procedural questions, sometimes at the expense of substantive discussion. He hoped that the CG.18 would be able to be more flexible on matters which could not prejudice national positions on substance.

27. Several members expressed concern about the growing scale of trade in counterfeit goods, which was not only harmful in itself but created the danger of unilateral protective measures which could disrupt legitimate trade. One member said that his country was receiving imported counterfeit goods on a scale which if continued would oblige his authorities to take action, if necessary on a unilateral basis, to safeguard the rights of entrepreneurs and the public safety. To resist these pressures would be especially difficult unless it could be shown that the relevant international organizations were taking all necessary action to bring counterfeit trade under control. These organizations certainly included the GATT, whose competence in this area had been recognized in the Ministerial Declaration, and a working party should now be set up to consider all aspects of the question, including the rights of third countries. This was supported by a number of members who felt that the establishment of a working party could not prejudice the eventual decision of the CONTRACTING PARTIES as to the need for joint action.

28. There was no disagreement as to the competence of GATT in the international aspects of counterfeit trade, but a number of members had doubts about the priority to be attached to this work, particularly in view of the activities of the World Intellectual Property Organization under the Paris Convention. These members felt that it would be sufficient to intensify the process of informal consultations. The point was made that if public safety or other national interests were felt to be threatened, they should be protected in a manner consistent with GATT obligations, and that domestic legislation, rather than international action, offered the best hope of effective control.

29. One member, though not raising the issue of competence, said he had doubts as to whether a question relating essentially to the restriction rather than the liberalization of trade was an appropriate concern of the GATT. Secondly, in other areas, such as dumping, the GATT had been very reluctant to ask contracting parties to take trade policy actions to protect the interests of third countries.

30. The complexity of this issue was underlined by a member who suggested that a distinction might be drawn between the counterfeiting of goods requiring no after sales service and those whose performance and perhaps safety depended on such service. Fraudulent use of trade marks - for example, by the manufacture under license and black market sale of quantities greater than those authorized - should also probably be distinguished from counterfeiting.

31. The Chairman concluded that counterfeit was seen by all speakers as a real and growing problem, though more important to some countries than to others. Most members also recognized a common responsibility to protect legitimate traders and ensure that trade in general would not be damaged by measures provoked by counterfeiting. He warned that inaction would in effect remit the problem to the decisions of individual customs officers, which might have very disruptive consequences. He felt that too many issues were now being discussed informally in the GATT and that the time had come to take this question out of its present informal context, which severely limited the transparency of the discussions.

Structural Adjustment

32. The representative of Canada urged that the Report of the Working Party on Structural Adjustment and Trade Policy should be adopted and the Working Party itself kept in being. She tabled for information draft terms of reference for further work. These have since been circulated in document C/W/454.

33. There was wide support for the view that work on this subject should continue, and most speakers saw merit in the proposed terms of reference. It was suggested by one member that they could be drawn more widely, to cover domestic policies which sustain uncompetitive industries and lead inevitably to a need for protection at the border.

34. Other members however stressed that a strict link should be maintained between work on structural adjustment in the GATT and the objective of trade liberalization. Structural adjustment was not a panacea, nor an end in itself, and the best adjustment policy was to have no trade barriers. Nothing done in the GATT should imply an obligation on governments to bring about adjustment by intervention - particularly intervention in the form of protection for inefficient industries. The problem of national sovereignty and the danger of over-concentration on sectoral problems should not be forgotten.

Services

35. The Chairman said that on this subject also the focus of debate had been largely procedural, concerning the creation of a working party and the degree of secretariat involvement in the informal consultations which had taken place so far. (He added that his own involvement, though involuntary, had been considerable since he received questions about it from virtually all Ministers and other representatives of contracting parties with whom he came into contact).

36. The Group received a report on the informal consultations from their chairman, who noted that the fortieth Session was required to consider whether multilateral action on services was appropriate and desirable. Eight national studies had so far been received and circulated to all contracting parties and some of them had been discussed. Half of the ministerial decision on services - paragraph 1 and half of paragraph 2 - was in process of completion, and work should now be directed towards development of a uniform format in preparation for consideration of the need for multilateral action. A number of delegations had supported a proposal to establish a working party, which had been submitted to the Council; he would be holding further consultations to see if agreement could be reached on a report to the Council.

37. There was general agreement that this was a subject of increasing importance, for both developed and developing countries. It was also extremely complex, and the information available should be greatly improved, notably by the submission of more national studies.

38. Several speakers strongly urged the establishment of a working party. No specific proposals were made as to its terms of reference, but one member suggested that they could and should include safeguards against any prejudice of national positions as to GATT's competence in this area. Work should now begin on the remaining elements of the ministerial decision, and this included a clear mandate for greater involvement of the secretariat, which had been in an anomalous position hitherto. There was also wide support for a proposal that exchanges of information should be encouraged between the GATT and other international organizations, such as UNCTAD, the OECD and the UN Statistical Office. It was suggested that a study on services, similar to that on textiles, should be undertaken by the secretariat.

39. One member said that the countries for which he spoke favoured work on services in all international organizations involved in trade. This obviously included the GATT: though the General Agreement might not be automatically applicable to services, some of its principles could be relevant, and the very close link between the promotion of trade in goods and the efficiency of the supporting services was a further argument for discussions within the GATT framework. Furthermore, the deadlines established by the ministerial decision could not be ignored - nor could the point that developments on one item of the Work Programme would have repercussions on other elements in the package.

40. Other speakers drew attention to the great disparity of interests on this matter, particularly between contracting parties at different stages of development, and to the lack of understanding of its full implications even among the countries most advanced in the service industries. The eight studies which had been done so far - all by developed countries - focussed on sectoral rather than trade problems and demonstrated the need to consider the national implications of the subject before turning to international aspects. The present state of knowledge was clearly inadequate for translation into multilateral trade policy. There was no intention to impede full implementation of the ministerial decision and no wilful delay on the part of developing countries in the completion of national studies, but the objective difficulties were very great; to press the work too fast, or to insist on formalizing it at this stage, given the differences of view as to the competence of GATT, would be unwise. It was suggested that fuller consideration of the second paragraph of the decision should begin in 1985, but that a time-frame could be established for the implementation of the first two paragraphs and for the start of work on the third. Another suggestion was that services should be kept on the agenda of the CG.18.

41. One member asked whether it would be useful to draw certain distinctions; for example, between barriers to trade in services which had protectionist motivations and those which served regulatory purposes, and between those which discriminate between suppliers and those which do not. The latter point raised the question whether standards concerning national treatment could be developed. He also noted that the capacity of developed markets to absorb manufactured imports would depend in part on their ability to adjust into services, which in turn would require that access to markets in services be negotiable. He feared that GATT would condemn itself to atrophy and growing insignificance if it continued to ignore the service sector; bilateral agreements involving both goods and services would be negotiated in increasing numbers between countries at all stages of development and would fall outside GATT's purview.

42. The Chairman noted the agreement in the Group on the economic importance of services and the need for further work and exchanges of information, particularly through the completion of more national studies. It was also agreed that the ministerial decision must be implemented in full and that the applicability of the

General Agreement to trade in services should not be prejudged. He took note of the proposal that the subject should remain on the agenda of the CG.18. However, differences of view persisted on the scale and timing of the secretariat's input to future work (which was particularly relevant to the design of a uniform format and to the exchange of information between governments and international organizations) and on the way in which that work should be organized. The CONTRACTING PARTIES would need to decide these matters, and to put the work as a whole into an acceptable and credible time-frame.

Paragraph 7(iii) of the Ministerial Declaration

43. One member recalled that paragraph 7(iii) of the Ministerial Declaration contained an undertaking by contracting parties to abstain from imposing discriminatory trade measures for non-economic reasons. This had been an important element of the Declaration and should not be forgotten: he wondered if a working party on this subject should be created. Another speaker strongly supported the abolition of all such measures, including those maintained against his country, but not notified to GATT, by the authorities of the previous speaker.

MTN Agreements and Arrangements

44. One member said it was to be regretted that little had been done to comply with the ministerial decision to review the operation of the Codes, including any obstacles to their acceptance by developing countries. Some code committees had only recently begun to consider this issue, notwithstanding the decision of 1982, and all of them should be reminded that this was part of their mandate, which should be systematically pursued.

Exchange rate fluctuations and their trade effects

45. Some members argued that erratic movements in exchange rates increased the uncertainty of foreign trade and the strength of protectionist pressures. Without encroaching on the competence of other international organizations, the GATT should consider whether these risks could be reduced: the secretariat might, for example, produce its own analysis of the trade effects of exchange fluctuations. The Chairman commented that the ministerial remit appeared to have been fulfilled with the submission to the Council of the study prepared by the IMF in consultation with the GATT secretariat. The secretariat could of course produce its own study, but he was not sure that its conclusions would be very different from those of the Fund.

Relations with other international organizations

46. The Chairman took the opportunity to place the Work Programme in the wider context of discussions on international trade in other fora, drawing attention to a number of high level meetings which will take place in the first half of 1985 and in particular to the special meetings at ministerial level of the Interim and

Development Committees. These would take place in April 1985 and would deal with international trade together with other major areas of economic policy. The GATT secretariat would participate as an observer in these meetings and would benefit from the views of the Group as to the line which should be taken. He added that a great deal of attention would be paid to the GATT's success, or lack of it, in solving, rather than simply discussing, the problems identified in the Work Programme.

47. Several members spoke in support of the line taken by the Director-General in contacts with the World Bank and the IMF, which were based on the belief that it must be helpful to sensitize the "constituencies" of the three institutions to the linkages between the subjects which are their primary concern, while respecting their different fields of competence. The views expressed by the Director-General in his statement to the September meeting of the Development Committee were endorsed. One member, referring to the recent efforts of the Chairman of the Committee on Balance-of-Payments Restrictions to secure improved cooperation with contracting parties in balance-of-payments difficulties, said his country regretted the lack of cooperation they had met in the Committee.

Prospects for international trade

48. Commenting on the GATT document "Prospects for International Trade" (GATT/1363), one member suggested that it would be useful for the secretariat to prepare an analysis of interest rate differentials between different countries in terms of their effects on capital movements and on the spread of the recent economic recovery from the United States to other economies. Another member said that the monetary and fiscal policies of some major countries had contributed to an increase in protectionism in the form of undue recourse to safeguard, countervail and anti-dumping action. This had damaged the payments situation and import capacity of many developing countries, as had the massive subsidization of agricultural exports by a number of industrialized countries. In these matters little regard had been paid to the principle of special and differential treatment for developing countries.

49. The Chairman said that the secretariat would consider the possibility of studying the effects of interest rate differentials and their consequences for capital movements.

Overview of the Work Programme: fortieth Session

50. All members agreed that the implementation of the Work Programme had in some respects been disappointing, even though useful progress had been made in some areas. It was also generally agreed that the Work Programme must continue to be regarded as a whole, with the work advancing in parallel, so far as possible, on the maximum number of subjects. It was clear that the work could not be completed in full in time for the 1984 Session which would have to review the progress made and agree on continuation of the work in 1985. The CONTRACTING PARTIES should state clearly where progress had been made and where the situation was less satisfactory, and should give a stimulus to stronger and more purposeful efforts in the early months of next year.

51. One member stressed that conditions propitious for cooperation in strengthening the trading system might well be short-lived, since the present period of rapid growth had probably reached its peak and protectionist pressures were increasing. It was clear that the major problems in the Work Programme could only be solved in a negotiating framework and that the work should therefore move to a negotiating mode. In particular, work should be accelerated on such areas as textiles, natural resource products, other questions of special interest to developing countries, trade in services, and counterfeit trade.

52. Other speakers agreed that the need for further multilateral negotiations would have to be confronted in the fairly near future, since there were disturbing trends towards bilateralism and other forms of economic cooperation which might be difficult to reconcile with multilateral principles. One member said that his authorities had made no secret of their desire for an early start on multilateral trade negotiations, or of their anxiety that these should take place in the GATT. This was undoubtedly the most desirable way to settle a number of urgent and difficult problems. But if progress in GATT proved impossible the necessary work would be done in other ways - bilaterally, plurilaterally or on a regional basis. This would be possible, for example, in the case of services, which were of special interest to his authorities, even though, here as elsewhere, they would much prefer the multilateral approach. The apparent fear of contracting parties to move into new areas, which was essential if the organization was to remain viable, gave an impression of stagnation and political paralysis. The GATT must give a lead, and a clear signal that progress could be anticipated should emerge from the forthcoming Session. Thought should be given to the possibility of a July 1985 Session of Contracting Parties.

53. It was said by one member that 1985 would be a crucial year for the world economy and for the GATT, which risked being left aside as the problems of the trading system were taken up in other fora or on a bilateral basis. His country had long ago made clear its desire for multilateral negotiations in the GATT and had taken positive action in a number of fields, including tariffs, standards and preferences, in order to improve the climate for cooperation. They had no fixed ideas about the content of a new round, and were indeed anxious to start discussing that question with all interested countries, but it must now be made clear to business that trade policies would be improved.

54. Another member spoke of the need to signal, in particular to the business community, the determination of contracting parties to complete the Work Programme and go further in trade liberalization. For this reason it would soon be necessary to decide on the timing and content of a new round of trade negotiations - hopefully with the widest possible participation. It was also suggested that the debate as to whether negotiations should take place was unrealistic; they were in fact inevitable, the natural consequence and continuation of the work programme. To talk of completion of the

Work Programme as a precondition of negotiation was therefore misleading. It was to be hoped that negotiations might even go beyond the subjects covered in the Work Programme, but even if not they would give a useful signal of confidence to businessmen.

55. In response it was said by a member that developing countries were not opposed to or afraid of a new round of negotiations; they accepted that it would come. But their insistence on full implementation of the Work Programme reflected their basic position that if the proposal of a new round were to be credible it must begin in conditions that would be attractive and propitious for all participants. There had been very little progress in parts of the Work Programme which were of special interest to developing countries, such as tropical products, quantitative restrictions and the elimination of illegal trade measures. The developing countries wanted the multilateral system maintained and strengthened, but this did not necessarily require them to follow the prescriptions of the developed countries; for example, they were concerned above all with the solution of long-standing impediments to trade in goods. They saw nothing in the present situation to justify erosion of the consensus on the GATT status of developing countries which had existed since 1964.

56. Another member said that he would support future multilateral negotiations if he could be persuaded that their aim would be to provide benefits for all participants - a principle that must underlie all multilateral endeavours. At present it was not clear how his country would benefit, though they were anxious that the trade system should be preserved and strengthened. He recognized that slow progress in some areas had caused frustration, but even on some of the newest and most difficult subjects there had been progress; services and counterfeit were being discussed, even if informally.

57. Frustration with the situation in GATT was said to be justified not so much by its failure to move into new areas of work as by the failure of contracting parties to respect its principles and to honour their own commitments. The suggestion was made that the commitment in paragraph 7(i) of the Ministerial Declaration might be renewed at the fortieth Session and that a working party might be set up to consider why relatively few developing countries had so far acceded to the MTN Agreements.

58. In conclusion the Chairman said that notwithstanding the evident frustration among contracting parties caused by slow progress in the implementation of the Work Programme, he had been impressed by the strength of members' attachment to the GATT system and their refusal to contemplate the risk of further deterioration in trade policies which would result from failure to move forward from the present unsatisfactory situation. The GATT was a permanent negotiating forum and he believed it would be possible at the Session both to arrive at fair conclusions on the present state of the Work Programme and to give a positive signal as to the direction of future work. In the run up to the Session

all outstanding issues should be approached in terms of negotiation, which required that due consideration be given to the concerns and needs of all contracting parties and to the objective of an overall balance of interests.

Date of next meeting

59. It was agreed that subject to consultations with delegations the next meeting of the Group would begin at 3 p.m. on Wednesday, 27 February, concluding at 1 p.m. on 1 March 1985.

CG.18/24
21 August 1984

Special Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

Consultative Group of Eighteen
Twenty-fourth Meeting
5-6 July 1984

NOTE ON THE TWENTY-FOURTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-fourth meeting on 5-6 July 1984. The annotated provisional agenda was circulated in CG.18/W/82 and the list of participants in CG.18/INF/25.

2. The agenda was as follows:

1. The Present Status of the Ministerial Work Programme
2. Structural Adjustment and Trade Policy
3. Countertrade
4. Other Business

Item 1 - The Present Status of the Ministerial Work Programme

3. Opening the discussion, the Chairman said that he hoped it would focus on the practical and political efforts which would be needed to ensure a satisfactory report to the November Session on the implementation of the work programme. Since the April meeting of the Group, when concern had been expressed about the speed of work on a number of subjects in the programme, there had been a certain amount of progress, notably in agriculture. Overall, however, there was still little sense of urgency and purposeful cooperation. Work was most obviously behind schedule on the vital issue of safeguards, on which, if there were to be movement towards real negotiation, some concrete proposals would have to be put on the table. On a number of subjects of special interest to developing countries, where much useful analytical work had been done, it would now be helpful to identify some specific opportunities for liberalisation and negotiation.

4. In the light of the need to strengthen and support economic recovery, the Chairman invited members to consider two questions: first, what practical measures could be taken to accelerate the implementation of the work programme in the run-up to the November Session; and second, since the Session must be seen as a stage in a continuing process, what outcome should be expected from it and how further work should be organised.

5. The discussion concentrated largely on specific items in the work programme, but in relation to the programme as a whole there was full agreement that it must continue to be given the highest priority and that maximum efforts must be made to observe the deadlines laid down by ministers for completion of particular tasks. It was also agreed that consideration must now be given to the organisation of work after November.

6. On the subject of safeguards, the Chairman of the Council informed the Group that informal consultations under his chairmanship would shortly resume. He thought it necessary that some decisions on this question should be taken at the Session, and for this to be possible concrete proposals for negotiation would have to be tabled in the near future. The Group agreed on the urgency of this matter and some members indicated that they hoped to be able to make proposals which would enable decisions to be taken in November on at least some elements of the safeguard problem, even though a comprehensive solution might not be attainable by that date.

7. One member said that the countries for which he spoke were ready to make special efforts in the coming months to advance the implementation of the work programme and improve trade relations. They hoped that other countries in a position to do so would follow suit, since liberalisation could not be a one-way street. First, they were considering the liberalisation of certain quantitative restrictions, with the interests of developing countries particularly in mind. They would also try to improve access for tropical products, perhaps by improvements in the GSP. They would continue to work constructively for a positive outcome in the Agriculture Committee and would do their best to promote agreement on safeguards, on which some ideas for a provisional solution (which would be necessary if a comprehensive solution by November appeared unattainable) were now in circulation. On paragraph 7(i) they would be ready to join in a renewed commitment at the Session to resist protectionist pressures. They hoped at that time to be able to announce the acceleration of Tokyo Round tariff cuts. On the question of exchange rates, they would be ready to join in an objective and non-prescriptive statement in November, which might state the problem and note the legitimate concern of those responsible for trade policy. They would also be ready to engage in further work on services and to negotiate on tariffs - with the problems of tariff peaks, escalation and bindings particularly in mind. They would wish to contribute to further work on trade in counterfeit goods, with a view to joint action in the GATT. They noted that some elements of the work programme were of less urgency than others. For example, the problems of dual pricing and rules of origin could perhaps be left aside for the present and taken up later if necessary.

8. Action on some items in the work programme would necessarily continue after November, notably on textiles, on which they would do their best to be sympathetic, particularly to truly developing countries, in the negotiations which would culminate in July 1986.

9. He added that improvements in such areas as technical cooperation would have budgetary implications, and the countries for which he spoke would do their best to be helpful in this regard. They were still concerned about procedural difficulties in dispute settlement, and would be favourably disposed towards a recommendation by the Director-General to create a reserve list of highly qualified panelists.

10. Another member said that his country, which had been urging the start of preparations for a new round of trade negotiations, saw the work programme as a necessary first stage in that process, and would do all it could to advance its implementation. The commitments contained in paragraph 7(i) of the Ministerial Declaration were crucial, and here the short-term objective, might be to achieve a standstill in the use of grey area measures, perhaps coupled with an element of rollback which might concentrate on measures of special interest to developing countries. There should be strict discipline in the use of Article XIX and of anti-dumping and countervailing measures, which were sometimes invoked too lightly. Greater transparency of trade policies was essential, and should be pursued if necessary in a committee created for the purpose, which might carry out reviews of individual countries' policies. Progress in safeguards had been disappointing, and pending agreement on a comprehensive solution Article XIX should be applied to the letter. His country would be in a position to be helpful on textiles, having substantially restructured its own industry. They would hope that substantive work might begin after November on services, with all due care as to modalities.

11. A number of these points were echoed by other speakers. One stressed that the present "window of opportunity" to act cooperatively to improve trade relations might not last very long; to take full advantage of it demanded maximum efforts from all contracting parties. Her own country attached high priority to safeguards, on which partial results at least must be achieved by November and intensive work continued thereafter. They would also have substantive proposals to make on agriculture, where progress so far had been satisfactory. Quantitative restrictions must also have high priority and she agreed with earlier speakers in recognising the special interests of developing countries in this area. On textiles, her government, like others, was under intense pressure to take protectionist action, and needed the support of international disciplines to resist it; we must endeavour to move forward here - and in order to improve trade policies generally, it would be of great assistance to politicians to have harder information than is presently available on the costs of protection to the consumer. This was particularly relevant to the implementation of paragraph 7(i). It was regrettable that so little progress had been made in the study of trade in resource-based products, and though on this nothing would be settled by November, it would be desirable to have a progress report to the Session. Her country would be making some specific proposals on dispute settlement. Work on services should be recognised as important and pressed forward.

12. Another member said that concentration on the work programme has recently overshadowed the very important undertakings, both joint and individual, to return to GATT rules, which were contained in the Ministerial Declaration itself. Like the work programme, these undertakings had regrettably become a matter for negotiation rather than simply being implemented as freely accepted obligations should be. It was important to complete as much as possible of the work programme before making a formal commitment to a new round, in order to create a common ground for negotiation, but it must be recognised that some elements in the work programme were too weighty to be resolved in substance except as part of a larger package. This meant that unrealistic short-term objectives must be eschewed, even while efforts to implement the work programme were intensified.

13. Other speakers emphasised the need to concentrate on the most important and difficult items in the work programme, and on questions clearly relevant to the need to maintain an open trading system. The safeguard issue, and the need to give operational substance to the observance of commitments under paragraph 7(i), were the examples most frequently cited.

14. Several members drew attention to the position stated in the Council by the Ambassador of Uruguay, on behalf of developing contracting parties, regarding the implementation of the work programme and of the undertakings in paragraph 7 of the Ministerial Declaration. It was pointed out that while all contracting parties shared the responsibility for faithful observance of ministerial decisions, developing countries had reason to be disappointed that since the Ministerial Meeting little real progress had been made in trade liberalisation. The agreement to advance Tokyo Round tariff cuts was a positive signal, but developed countries should act now, unilaterally or jointly, to remove illegal trade restrictions in accordance with paragraph 7(i) of the Ministerial Declaration. If such measures could not immediately be suspended, steps should be taken to mitigate their effects on developing countries. Similarly, while it might not be possible for long-standing quantitative restrictions to be eliminated immediately, some prompt action, apart from mere collection of information, must be taken.

15. Another member described his government's frustration at the lack of political will, which even the difficult economic circumstances of the time could not disguise, to take the positive action which had been expected to follow the Ministerial Meeting. Though the work programme could not be completed by November, some concrete steps must be taken by then if the frustration of developing countries was to be relieved, and he had been surprised and encouraged by the indications given at this meeting of a real intent to make progress in the autumn. He agreed that progression from the work programme to a new trade round could be seen as a natural continuum, but pointed out that moving to the stage of a negotiation entailed a political, not merely a technical, decision. For this reason it was very desirable to create a healthy political

atmosphere by positive action in the short term. Attention should be concentrated on implementing the work programme, and the desirability and feasibility of a new round considered subsequently. This was not intended as a negative position; his country would do its utmost to facilitate a successful outcome in November. The question of services must be approached, even in its procedural aspects, with great care; it was not only controversial and highly complex, but also had many implications for development policy, both economic and political.

16. Another member agreed that attention must be concentrated on the work programme and that the degree of preparation, and the legal status, of different items in the programme must be borne in mind, as must the competence of the GATT. He also welcomed the positive spirit manifested by some members from developed countries.

17. Several members stressed the importance of paragraph 7(i) of the Ministerial Declaration and the need to make it effective. It was suggested that the Council might report to the Session on the implementation of 7(i) and 7(viii). The suggestion that the undertakings contained in it should be reaffirmed in the November Session was thought to be potentially useful. The distinction between the commitments already accepted in the Declaration and the further commitments which might flow from the work programme was underlined.

18. Most speakers expressed satisfaction with the work done to date in the Agriculture Committee, but one cautioned against undue optimism on the ground that there had been little evidence of special attention to the needs of developing countries in relation to market access and to the effects on them of domestic support policies.

19. The Chairman concluded that this frank discussion had been helpful in indicating where advances might be possible in the short term and where there was a need for substantial extra effort. Another such discussion would clearly be useful; this should perhaps be the main business of the Group's next meeting, in October.

Item 2: Structural Adjustment and Trade Policy

20. The Chairman said that the discussions in the Working Party on Structural Adjustment and Trade Policy had demonstrated general agreement on the importance of the adjustment process and its relevance to many of the problems confronting the GATT. The purpose of the paper prepared by the secretariat at the request of a number of members (CG.18/W/83) was not to reopen these discussions but to pose two questions: first, was there a need to give operational force to the perception that adjustment policies can have a profound effect on trade flows and trade relations; and second, if there was such a need, whether anything could be done in practice, and in the GATT context, to meet it.

21. There was virtually no disagreement between members as to the vital role of structural adjustment in promoting the efficiency and growth of the world economy and of national economies. Many saw it as a fundamental obligation of governments to maintain an economic environment in which market forces and the principle of comparative advantage would stimulate innovation and a continuous process of adjustment to changing economic conditions. It appeared that this had become more difficult in recent years, even for governments persuaded of the necessity for it, because of economic stagnation, high unemployment, and monetary confusion. However, it was pointed out that these conditions were also occasionally cited by governments as excuses for actions, or failures to act, which themselves impeded adjustment and by causing economic rigidities and imperfections in the trading system were prolonging the recession. Nor was it evident that economic recovery had restored the vitality of the adjustment process, since it had not been accompanied by relief from protectionist measures.

22. Some members laid emphasis on the social problems caused by rapid economic change, and the consequent need for governments to smooth the process. Nevertheless, it was recognised that some industries would contract over time and that the function of government in these cases was to facilitate redeployment of the resources involved rather than to protect their employment in uneconomic uses. In developed countries, textiles and leather were among the industries which could be expected to contract, and they had indeed undergone massive adjustment in recent years.

23. Several members saw a strong North-South element in the adjustment problem, particularly in the light of the debt crisis. The debt burden could only be sustained if real interest rates could be kept below the growth rate of exports, but the export-led growth which this entailed for the indebted countries could not be achieved without secure access to developed markets, and this in turn required willingness on the part of the governments concerned to allow comparative advantage to operate internationally. Some "adjustment assistance measures" had precisely the opposite effect, by helping to keep uncompetitive firms and industries in existence. One member suggested that the GATT might adopt a programme aimed at facilitating structural adjustment in the short and medium term, particularly in areas of interest to developing countries. It was pointed out that developing countries themselves would also have to implement adjustment programmes in certain areas, and that the arguments for trade policies favouring structural flexibility were equally applicable to trade exchanges and trade relations between developing countries as to North-South relations.

24. There was general agreement that although relatively few GATT provisions - e.g. the Subsidies Code and Article XXXVII - refer directly to adjustment, adjustment problems underlay most of the difficulties confronting the GATT, and that liberal trade policies were among the most important conditions for economic flexibility. The minimal contribution of contracting parties to the promotion of

adjustment should be to respect and apply in full the provisions of the General Agreement. However, it was clear that most forms of government intervention in the economy, whether or not intended to affect industrial structures and performance, would in fact do so, whether for good or ill. They would thus also affect, directly or indirectly, trade flows and the interests - and perhaps also the contractual rights - of other contracting parties.

25. In considering the possibility that GATT could have an operational role in relation to adjustment policies, some members saw scope for some form of monitoring and surveillance, or at the least for the exchange of information. The Group discussed at some length the extent to which this might cover domestic measures such as adjustment assistance policies as well as to border measures. Most members recognised that concentration on border measures alone would exclude some of the most potent influences on industrial structures. Domestic subsidies, for example, could often be seen to have trade effects as important and almost as direct as export subsidies - and both forms of subsidy might frustrate or postpone adjustment rather than promote it. However, it was pointed out that GATT must remain a trade policy organisation: it should not trespass too far into questions of "industrial policy" and macro-economic policy, since they involved important aspects of national sovereignty which governments would be unwilling to subject to the judgement of their trading partners.

26. In discussion of the organisation of future work on this subject, there was some support for the establishment of a standing committee on structural adjustment or for the revival of the Working Party on Structural Adjustment and Trade Policy - though the Chairman of that Working Party cautioned against the waste of time that would be involved in simply repeating its work. It was generally agreed that the Working Party's report should, as a first step, be adopted by the Council, and subsequently be taken into account in the continuing work of the GATT.

27. One member suggested that a standing committee might examine the experience of adjustment in individual countries and in specific sectors and endeavour to draw conclusions on the role of GATT in relation to structural adjustment, without prejudice to any disciplines which might eventually be suggested. This exercise could also encompass new issues such as trade in high technology and services, which also involved adjustment problems, as well as the effects of grey area measures, safeguards and subsidies and such questions as the role of private enterprise and restrictive business practices, which had hitherto been largely ignored in GATT. Other members, however, thought that this would be too ambitious, and that it would lead directly into problems of industrial policy and national sovereignty. They favoured the examination of existing rules on such matters as safeguards and subsidies with a view to improving them so that impediments to adjustment might be removed. The point was made that monitoring and surveillance, however efficient, could only have limited value; it could never be a substitute for enforcement of GATT rules.

28. Some members saw the relationship between structural adjustment and safeguard measures as being the heart of the adjustment problem. It was suggested that countries applying safeguard measures might voluntarily submit to GATT information on the adjustment programmes to be implemented for the protected sector, together with a timetable for the elimination of the measures. It was noted that structural adjustment was not at present a condition for Article XIX action, and some members thought that consideration might be given to establishing such a link. Others, however, were doubtful of the desirability of doing so, though all recognised the negative impact which safeguard measures can have on industrial efficiency and the necessity to avoid offloading the cost of adjustment onto third countries.

29. There was general agreement that it would be inappropriate for GATT to become involved in purely domestic policies such as the encouragement of labour mobility and the provision of retraining schemes, though it was recognised that such measures could help secure support for trade liberalisation.

30. It was recognised that subsidies are among the most common and most influential of the means by which governments seek to change or preserve industrial structures, and that in some cases they may play a useful role in promoting adjustment. It was suggested that if subsidies could be classified according to their objectives, those intended to promote adjustment might be considered acceptable. A number of members, however, thought it would be very difficult, if not impossible, to develop criteria by which subsidies having these positive effects could be distinguished from those which simply reduce the pressure for adjustment or offset the legitimate comparative advantage of foreign suppliers. The point was also made that, like safeguards, subsidies tend to become permanent and therefore damaging, however good their original purpose. In this field as elsewhere, trade policies should emphasise adherence to the rules of GATT and the opening of markets to international competition.

31. A number of members said that their governments might be prepared to submit information on their structural policies and programmes to the GATT in the interests of greater transparency, and might also be prepared to discuss them, on the understanding that others would do likewise. None, however, could envisage such policies being subject to approval or disapproval in the GATT. It was pointed out that a great deal of information on this subject already existed, not only in the GATT but in the OECD and elsewhere, and the suggestion was made that the secretariat might prepare a synthesis of the work done in other organisations.

32. Summing up the discussion, the Chairman said that the Group seemed to agree that the GATT had a role to play in the adjustment process, which was very closely linked to the contractual relationships between contracting parties in such matters as subsidies, safeguards, quantitative restrictions etc. There had in

general been no desire to see the GATT assume new responsibilities in the area of industrial policies, and members had stressed that future work on adjustment should be pragmatic and realistic. Most members also laid emphasis on the notions of surveillance and transparency - the latter meaning the timely provision of full information on measures being implemented. The final objective of further work on this subject should be to bring governments to promote adjustment and flexibility by the use of trade policies which would enhance the operation of market forces. The Group had agreed that the Council should consider and adopt the report of the Working Party, and take any necessary decisions for the organisation of future work.

Item 3: Countertrade

33. The Chairman said that although hard information on the subject was scarce, it seemed clear that countertrade, or barter, was growing in volume and importance. As requested, the secretariat had produced a study (CG.18/W/80) on the economics of countertrade and the possible relevance to it of GATT rules. The first section of the paper sought to assess the scale and economic effects of the practice, described some of the forms it takes and suggested some of the reasons which might induce traders to do business in a way which necessarily involved costs which might be heavy. The second section of the paper analysed the possible relevance of GATT articles to some hypothetical cases of countertrade. He stressed that it had been impossible to carry out the remit given to the secretariat without expressing opinions on legal questions but that of course the secretariat made no claim to lay down the law.

34. The Group agreed that countertrade had been proliferating in recent years. Some speakers deplored this fact, pointing out that even if countertrade could be seen as a means of responding to distortions in international markets, it was an inefficient and costly solution which would perpetuate rather than remove the distortions. They agreed that countertrade increased transaction costs and made it impossible to choose the most appropriate source of supply and the most profitable outlets. Indeed, this was its purpose; countertrade created a false demand for goods which otherwise could not have been sold in international markets.

35. Some speakers made a distinction between countertrade required or mandated by governments and transactions arranged by private firms; it was suggested that the latter could in some cases be justified in economic terms, whereas government intervention necessarily created distortions and was incompatible with the obligation of all contracting parties to maintain a multilateral system based on GATT rules and principles. Countertrade in fact represented a pronounced movement towards bilateralism of an extreme kind, but because of lack of transparency it was difficult to apply GATT rules adequately. These members stressed the suggestion in the secretariat paper that government measures requiring or taking the form of countertrade could conflict with

obligations under the GATT and the Codes. One member said that obligations under Articles I, II, VI, XI, XIII, XVIII and XXIII, and possibly others, might be brought into question by different forms of countertrade. Concern was expressed in particular about the possibility that it might operate as a disguised form of dumping or export subsidy, or might facilitate the discriminatory application of quantitative restrictions.

36. It was also pointed out that, like other forms of bilateralism, countertrade could be abused by the larger or dominant partner in a transaction, to the detriment of smaller enterprises and smaller countries.

37. Some other speakers, while recognising that countertrade involved inefficiency, pointed out that it could be advantageous, or simply unavoidable, where there was no other means of financing transactions. Many developing countries, for example, were now faced by a chronic shortage of foreign exchange, and some might also find that countertrade provided the only means of access to highly protected markets. In such cases, countertrade would be likely to persist so long as protectionist policies were in force. If trade would not otherwise take place, countertrade could be said to have a trade-creating effect. The transfer of technology involved in some transactions could also be valuable. In some sectors - agriculture and civil aircraft were examples - barter was long-established and widely used, and could help to open up new markets. It might be expected to decline in importance as general economic conditions improved and excess production capacity was absorbed. Countertrade need not therefore be seen as a serious threat to the open market system.

38. Several speakers disagreed with the opinion that countertrade could hardly be consistent with GATT rules, pointing out that, as far as developing countries were concerned, it should be seen in the light of Article XVIII and Part IV. It was pointed out that countertrade arrangements were often proposed by enterprises from countries not having balance-of-payments or liquidity difficulties. These members tended to support the suggestion in the secretariat paper that countertrade was not in itself contrary to GATT or the Codes.

39. Doubt was expressed about the validity of the argument that government-mandated countertrade was likely to be more costly and inefficient than private, and about the feasibility of making an operational distinction between the two. Cases should be considered individually in the light of their effects - beneficial, harmful or otherwise.

40. It was widely felt that the growth of countertrade was a symptom of a general malaise in international trade and financial relations and that to restore these to health, notably by resisting protectionism and observing GATT rules, was the only way to limit its spread. Imperfections in the rules themselves were

not thought to be at the root of the problem. However, a number of members were of the opinion that concrete action was necessary to defend the open trading system and resist the spread of bilateralism. In their view a passive attitude to countertrade would amount to tacit approval, and it should be clearly stated that the effects of the practice were to restrict competition and strengthen bilateralism. It was suggested that the secretariat should elaborate its analysis of the economics of countertrade so as to provide a stronger basis for decision on the attitude contracting parties should adopt. Some other speakers argued that the evidence did not indicate any immediate ground for concern and that other problems should have higher priority.

41. The Chairman concluded that there were divergent views on the economic rationale, trade effects and GATT consistency of countertrade operations, though all members seemed to feel that the problem reflected more fundamental weaknesses in international economic relations. He had noted in particular the concern of members about the imbalance of advantage which characterised many countertrade generations, and the disagreement as to whether countertrade could in any circumstances be trade-creating. The secretariat would, as requested, prepare an appendix to CG.18/W/80 in which the economics of countertrade would be further analysed, and in the light of this the Group would be able to decide whether and when to revert to the subject.

Next Meeting

42. The Chairman suggested that the next meeting of the Group should take place in the latter part of October and proposed, subject to consultation with delegations, the dates of 25 and 26 October. The main business of the meeting would be the implementation of the Work Programme.

CG.18/23
23 May 1984

Special Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

Consultative Group of Eighteen
Twenty-third Meeting
4-6 April 1984

NOTE ON THE TWENTY-THIRD MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-third meeting on 4-6 April 1984. The annotated provisional agenda was circulated in CG.18/W/78 and the list of participants in CG.18/INF/24.
2. The agenda was as follows:

1. Subsidies in GATT
2. Trade Policy and the International Financial System
3. Other Business

Item 1 - Subsidies in GATT

3. The Chairman said that the problem of subsidies had become in recent years a source of particular difficulty in international trade relations. Moreover the efforts of the contracting parties to clarify disciplines in this area, through the negotiation of the Subsidies Code, had not yet produced all the results that were hoped for. The table reproduced as Annex I to the document CG.18/W/79 showed the marked rise in public subsidies as a percentage of GNP that had taken place in the industrial countries since the beginning of the 1970s, and there was no reason to believe that the situation in developing countries would be much different. What was more directly relevant for the GATT as an indication of the growing scale of the problem was the striking increase in the number of trade disputes which have arisen, directly or indirectly, from the use of subsidies. By no means all of these disputes, even the most important among them, had come formally before the GATT: one of the most disturbing factors of the situation was that some major problems in this area, with great potential for damage to third parties and to the trading system, were not being considered at the multilateral level. However, even if one looked only at the cases which have reached the GATT formally in the shape of disputes, the picture was striking enough.

4. The question which the secretariat paper posed, if it could be summed up in a few words, would be as follows: are the undoubted problems which have arisen in the subsidy area, and their apparent proliferation, mainly the result of economic pressures which have caused governments to resort to such measures as a means of capturing or holding on to market shares? Or are they an indication that the GATT provisions relating to subsidies and related measures, even as supplemented by the Subsidy Code, are still in need of improvement or clarification?

5. The Group agreed that in view of the growing awareness of the problems subsidies were causing in international trade relations it was appropriate that the Group pay special attention to them, but that it could not

substitute itself for the Committee on Subsidies and other specialized bodies in the GATT. The discussion therefore concentrated on the broader issues, including political and social considerations.

6. The secretariat paper was in general found to be useful, but a number of comments were made on specific points. One speaker considered that it was inappropriate and simplistic to distinguish, as the paper did, between infant and senile industries, particularly in the complex industrial structure of developed economies. For example, high technology was not a preserve of new industries alone, but a vital element in revitalizing older industries. Another speaker had some doubt whether subsidies were often sought as a means of protection by what he called "sun-set" industries. He considered that these industries were much more likely to seek protection in the form of quantitative restrictions or increased tariffs.

7. A number of speakers questioned the accuracy, utility and feasibility of statistical comparisons between countries such as the one reproduced in Annex I to CG.18/W/79. Others considered that whatever the defects of the statistics there was a clear trend towards growing use of subsidies. One speaker recalled that during most of the post-war period there had been a tendency to reduce trade barriers applied at the border while subsidies had increased. Recently however a disturbing element was that both subsidies and other trade barriers were increasing.

8. The point was made that the proliferation of subsidies was in part a consequence of economic crisis. In present circumstances all countries had to resort to one or another form of subsidies, and some of these could be justified in social terms - or even in economic terms, if they had the effect of promoting economic activity or technical progress. Examples were adjustment assistance intended to change industrial structures by phasing out obsolete industries or making them more competitive, and Governmental help, through research and development activities, in introducing new technologies.

9. Several speakers also stressed the rôle of subsidies in the economic development of developing countries; the low level of industrialization and lack of capital in some countries left no choice but to undertake certain programmes subsidized by governments, and the Subsidy Code had recognized that subsidies were an integral part of the economic development programmes of these countries. Furthermore most of these subsidies were not trade distorting but, by increasing income, had rather a trade creation effect.

10. Divergent opinions were expressed on the relationship, which all admitted to be close, between subsidies and structural adjustment. Some members, although not denying the adverse effects subsidies might have on the adjustment capacity of an economy, pointed out that increasing competition and rapid changes in technology faced some industries with very abrupt adjustment requirements. It was justifiable to use subsidies in some of these cases to smooth the adjustment process and to give these industries a "breathing space", especially if this enabled them to improve their ability to compete. The problem, however, was to ensure that the "breathing space" was used to bring about necessary changes.

11. However, others were of the opinion that it was very difficult if not impossible to use subsidies to facilitate adjustment. In practice they tended to become permanent, through the creation of vested interests, as a more or less covert form of protection. They thus developed a dynamism of their own, the initial objectives being forgotten, and delayed or prevented adjustment by biassing production structures towards inflexible and uncompetitive firms or sectors. Their use by developed countries frequently obliged others, in particular developing countries, to follow suit, notwithstanding the negative experience developed countries had with subsidies.

12. It was widely felt that one of the most disturbing aspects of the proliferation of subsidies was their adverse effects on international trade. Even when applied as domestic policy measures they often affected the trade sector, distorting competition and causing prejudice to trading partners. For this reason it was impossible to make a clear distinction between subsidies having and not having trade effects. Export subsidies in particular caused serious prejudice to the interests of efficient producers and were at the root of many trade conflicts. These effects were particularly visible in agricultural trade, where protection and subsidies had led to huge surpluses which were being dumped on world markets, at heavily subsidized prices, to the detriment of more efficient producers. The prevalence of depressed prices and of artificial competition had specially detrimental effects on agriculture in developing countries. It sometimes forced them to subsidize their agricultural exports in turn, but in most cases even this remedy was not available because of scarce financial resources.

13. Some speakers pointed out that subsidies might be more necessary for those countries which had bound practically all of their tariffs, thus depriving themselves of means of protection easily available to other countries. Nor was it necessarily true that tariffs were better or less distorting than subsidies: in some cases subsidies would be a more appropriate instrument to correct existing distortions. Subsidies should therefore be seen as one of the policy instruments available to governments the choice between which would depend on considerations which were not purely economic but had broader political or social dimensions.

14. References were made to efforts undertaken at national level to limit the use of subsidies: it was pointed out that in many countries growing budget deficits had imposed constraints in this field. Some members however, while welcoming the constraining effects of budget deficits, said they would be very concerned if this, rather than understanding of its negative effects, were seen as the main reason to limit subsidization.

15. Several speakers noted that many subsidy measures had not been notified in GATT, and that there was growing use of disguised forms of subsidies, in particular through tax reliefs and subsidized credit rates. The importance of transparency for the functioning of the GATT system, and the need for notification of all subsidy measures was stressed. It was regretted that only thirty contracting parties had submitted notifications under relevant GATT procedures, but one member pointed out that as one important trading country was, in some cases, imposing countervailing duties on the basis of the existence of a subsidy without an injury test, countries to which such a test was not applicable might be reluctant to notify their subsidies. Another speaker said that the obligation to notify subsidies had nothing to do with countervailing duties but resulted from GATT provisions applicable to all contracting parties.

16. On the question whether or not existing GATT rules on subsidies were adequate, several speakers considered that they left too much room for divergent interpretations. The Subsidies Code too had not always been found to give clear guidance on the definition of a number of key concepts: subsidies and export subsidies; primary and non-primary products; "a more than equitable share of world export trade": and price undercutting. These therefore required further clarification and agreed interpretation.

17. One speaker said that disciplines relating to primary products could not rest exclusively on criteria based on the effects of subsidies. It was difficult to demonstrate a causal link between subsidy and prejudice and easy to advance differing interpretations. Interpretations which would allow subsidization of primary components of exported processed products would be dangerous, since all manufactures have primary components. He and some other speakers also referred to a dispensation provided under the Subsidies Code with regard to export credits. The rules on this matter were related to agreements signed outside the GATT and therefore not subject to GATT disciplines, and in whose negotiation a number of signatories of the Subsidy Code could not participate.

18. It was also said that the Subsidy Code contained some other inadequacies important from the point of view of developing countries. For example, provisions allowing remission of indirect taxes in respect of exported products were of little use for many of those countries because of the complexity of their tax systems. The view was expressed that the relative under-development of the agricultural sector in developing countries would justify special treatment for these countries as far as subsidies on primary products were concerned.

19. Other speakers questioned the view that GATT rules were inadequate, considering that the main problem was a lack of political will to abide by existing obligations. One speaker said that some countries realized only after signing the Subsidies Code that they did not or could not accept its disciplines, and then developed the dangerous practice of criticizing the rules without really trying to implement them.

20. A number of speakers expressed doubt whether improved drafting of the GATT and Code provisions would solve the problem without a basic consensus concerning disciplines on the use of subsidies that may have prejudicial effects on trade. If such a consensus could be achieved it should not be difficult to mould it into effective disciplines.

21. It was said that the problems in this area, although important, were only symptoms of the more basic question of the conditions of competition, which had changed over the years so that there was no longer a consensus on the meaning and limits of competition and the respective roles of governments and the private sector. It was suggested that the CG.18 might initiate a discussion on the definition and scope of competition in the sense of the General Agreement.

22. Concerning the level of subsidies, it was suggested that one of the first steps towards resolution of trade conflicts would be to reduce the level of support given to various economic activities, in particular in the field of agriculture. It might be impractical to speak at this stage about complete elimination of subsidies, but at least efforts should be undertaken towards their progressive reduction.

23. One speaker said that there were dangers in looking at subsidies from a sectoral point of view. Apart from the Subsidies Committee, the main forum for discussion in the GATT had been the Agriculture Committee and he had the impression that attitudes in this Committee were different and less flexible than elsewhere in the GATT. He therefore suggested that arrangements should be made to ensure that all aspects of subsidies be discussed in one forum.

24. The Chairman said that the discussion had confirmed the existence of growing concern among contracting parties about subsidies, which even when used for domestic objectives were capable of causing friction and conflicts in international trade relations. There had been general opposition to the misuse of subsidies and an awareness that they should not be allowed to distort international competition. At the same time there had been a clear indication that the realities of the world were such that it would be impossible to settle the problem by a stroke of the pen. It was therefore important to reflect how to avoid a situation where world trade would be conducted less in response to normal market forces than on the basis of competitive subsidization.

25. He added that although there had been differing views on the degree to which the GATT rules needed improvement there was a common feeling that, at the operational level, they were not working very well. The discussion in the Group should therefore encourage the contracting parties to push forward the work going on on these problems. The GATT rules themselves and the Subsidy Code reflected a compromise; the main question before the contracting parties was whether this compromise was a good one in the present circumstances. If the answer was yes, then the contracting parties should be encouraged to make the best use of the rules and when necessary to clarify the areas of misunderstanding. For example the discussion had shown that in the present world the relationship between internal and external policies was such that it would be very difficult to draw a dividing line, and although the GATT rules tried to address these issues there was certainly a need to clarify their meaning and application in this respect.

26. There was also general agreement that further efforts should be made to improve transparency in the use of subsidies. Such efforts should not be compromised by any secondary effects of improved transparency on the use of countervailing duties. All these problems were under consideration by appropriate GATT bodies and the CG.18 could revert to them whenever it appeared that there was a need for discussion at this level. Some of the problems discussed at this meeting would no doubt recur in the discussion of structural adjustment at the next meeting.

Item 2 - Trade Policy and the International Financial System

27. The Group had discussed this subject at its last two meetings on the basis of papers by the secretariat (CG.18/W/74 and CG.18/W/76). For the present meeting, the report of the Chairman of the Balance-of-Payments Committee to the Council (C/125), reflecting the results of his consultations regarding ways in which matters relating to the link between trade policy and international finance could be pursued within the framework of the work of that Committee, had been made available.

28. Introducing the discussion, the Chairman observed that since the last meeting of the Group, he had had an extended discussion of the trade/finance link with the Managing Director of the International Monetary Fund of the World Bank, in which he drew heavily on the views which had been expressed in this Group. In particular, he had underlined the strongly held view that trade problems and trade negotiations should be dealt with under the aegis of the GATT and that in all such efforts great care should be taken not to infringe the multilateral principle. He believed that as a result of this discussion there was better mutual understanding of the positions of the GATT, the Bank and the Fund, and greater coherence between these positions. Both the Fund and the World Bank were presenting studies of the role of trade in the international adjustment process to the forthcoming meeting of the IMF/IBRD Development Committee, and he thought it could be said that these papers reflected the increased understanding of these two institutions of the functioning of the GATT system.

29. The Chairman further observed that in his view three main points had emerged from the examination of these issues in the GATT so far:

- First, although there was an obvious link between the trading environment and problems of balance-of-payments financing, there was no necessary operational connection between the handling of these problems by the international financial institutions and by GATT in their respective fields of competence.
- Second, there was general agreement that any action in the trade field must be consistent with GATT m.f.n. and other principles and procedures, and that resort to bilateral trade measures in the attempt to solve financial problems would be likely to make the general situation more rather than less difficult.
- Third, public discussion of the trade/finance link had raised expectations about the role of GATT in helping to redress the situation of heavily indebted countries through the improvement of the trading environment. It was not enough to say that trade liberalization must be carried out under the aegis of GATT and in accordance with GATT principles; we had also to show that there was a prospect that the expectations which had been raised could be fulfilled.

30. The Chairman suggested that the discussion at the present meeting should focus on what practical possibilities there were for action, and over what time-scale.

31. Referring to his extensive informal consultations on ways in which matters relating to the link between trade policy and international finance could be pursued within the Balance-of-Payments Committee, the Chairman of the Committee, Mr. Feij, observed that the following conclusions had emerged from these consultations:

- The Balance-of-Payments Committee did not need new or extended terms of reference to give greater weight to the trading environment confronting consulting countries. Article XII of the General Agreement itself stated that "due regard should be given to any special external factors adversely affecting the export trade of the contracting party applying restrictions".

Paragraph 12 of the Declaration on Balance-Of-Payments Measures adopted at the end of the Tokyo Round instructs the Committee, if a developing consulting country so desires, to give particular attention to possibilities for alleviating the balance-of-payments problems of that country through measures that other contracting parties might take to facilitate an expansion of its export earnings.

- Secondly, any action taken in this context should be consistent with the principles of multilateralism. This did not, however, imply that such action cannot focus on the interests of a particular group of countries since the great majority of the heavily indebted countries which were taking trade measures were developing countries to which the provisions of Part IV and those of the 1970 Decision on Differential Treatment may be applied. It was not contrary to multilateral principles to select action on particular measures or products which would be of special benefit to a consulting country as long as such action was implemented in a non-discriminatory manner. The fact that in some cases such selective action might also benefit other developing countries (who in many cases are also experiencing balance-of-payments difficulties) did not seem a convincing reason to refrain from action. The abolition of discriminatory measures, where they may still exist, would be a move towards and not away from multilateral principles.
- Thirdly, no support was found for the suggestion that measures relating to trade policy agreed upon under standby or extended facility arrangements with the IMF should be notified as such to the GATT, or for the implication of a formal link between such measures agreed with the Fund and a possible response in the form of trade action by other contracting parties. In the absence of a quid pro quo approach, the logical conclusion was that any action taken by other contracting parties should have an autonomous character. There also appeared to be a consensus that such action should in principle be temporary and would not prejudge the outcome of ongoing more comprehensive programmes undertaken by other GATT bodies or for that matter of any future negotiations.
- Finally, that irrespective of the causes of their balance-of-payments difficulties the indebted countries' capacity to repay their debts largely depended on the possibility to expand their exports (given the fact that most of them had only very limited possibilities to improve their current account position by other means). There seemed to be an increasing tendency in other international institutions to link the problems of trade and finance. If the GATT wished to make a contribution to the resolution of these problems, the institutional and procedural machinery was available and so were the legal provisions which permitted action to be taken.

32. In an extensive discussion, members of the Group strongly supported continuation and strengthening of the role of the Balance-of-Payments Committee in identifying and highlighting external factors adversely

affecting the export trade, and consequently the balance-of-payments position, of the consulting countries. The suggestions made by the Chairman of the Balance-of-Payments Committee in his report to the Council (C/125) were widely endorsed. One member suggested that the secretariat should have a larger role in assisting consulting countries to prepare themselves for the consultations.

33. Some members welcomed closer contacts between the IMF and GATT secretariats, which could only help the two secretariats to get a clearer picture of the situation in their respective fields of work. Others however took the view that the existing level of coordination and cooperation between the IMF and GATT in the context of the link between trade policy and international finance was already adequate: any attempt to link the solution of very difficult international finance and monetary issues with that of problems in the field of trade, would be likely to complicate the issues further and make the work of GATT more difficult. It was suggested that such a link could disturb the balance of rights and obligations on which GATT was based. At the root of the problems of international finance was the question of reforming the international financial institutions, and these problems could only be adequately dealt with at a global conference.

34. It was observed that any trade policy measure taken by developed countries to alleviate the burden of consulting debtor countries, would have to be meaningful and effective, if the process was not simply to raise hopes and expectations without fulfilling them. Such actions would also have to have due regard to the principle of non-discrimination. One member thought that it was necessary to deal with the problem of import restrictions maintained by developed countries in the interest of all developing countries, and not simply of countries which consulted under Article XVIII. Another member observed that indebtedness and the link between trade policy and international finance should not be considered as exclusively north-south questions. He also emphasized that the terms of debt servicing arrangements and economic policy prescriptions for debtor countries coming from the IMF or the Paris Club should be such as to preserve the capacity of the debtor countries to maintain a minimum necessary level of imports.

35. One member considered that special trade policy measures responding to the pressing needs of the debtor countries facing serious balance-of-payments difficulties would be essentially temporary in character. They would also be entirely unilateral and autonomous, reflecting the willingness of the developed creditor countries to cooperate with their developing partners. He added that while trade policy measures would alleviate the burden of the developing debtor countries to some extent, they alone could not solve the problem. International financial and monetary organizations could not escape the burden of the solution of financial problems by simply relying on trade expansion. Appropriate financial measures would have to be taken: any country which had a debt higher than its export trade would benefit much more from a reduction of interest rates, for instance, than from any comparable increase in its exports. In the long run, of course, the solution did lie in the trade field, since it was only through enlarged exports that debt could be serviced, but trade did not offer a short-term solution.

36. The point was made that liberalization measures taken by developed countries with a view to improving market access for developing countries, and in particular the heavily indebted among them, would also benefit the developed countries themselves; not only would such measures help debtor countries to service their debts, but they would also enable them to import more from developed trading partners - provided that general trading conditions were such as to encourage policies based upon export expansion rather than import substitution.

37. One member observed that in the absence of favourable conditions for international transfer of capital, expansion of international trade was possible, in principle, only if it was balanced in the long run. Therefore, if there had been an imbalance of trade in favour of the developed creditor countries during a certain period, these countries should now follow less restrictive policies towards imports from debtor countries, so as to create a surplus in their favour and restore the long-term balance. Debtor countries would otherwise be forced to limit their own imports, thus curbing international trade.

38. Another member suggested that besides reduction of tariffs and other trade barriers, developed creditor countries should as far as possible avoid recourse to safeguard, countervailing and anti-dumping actions against exports from developing debtor countries. Another speaker however demurred. His government did not believe that the proper and transparent use of the provisions of their laws in regard to such actions was protectionist. The provisions were there to remedy unfair trade practices.

39. Members from some developed countries observed that they accepted the responsibility of the developed countries to liberalize access to their markets for exports from developing countries, to enable them not only to repay their debts but also to sustain the process of economic development. They were already trying to meet this responsibility to the greatest extent that was economically and politically feasible. However, this positive attitude could only be sustained politically if the debtor countries also maintained relatively open and liberal trade policies and enlarged trade opportunities for their trading partners. If, as their positions improved, they were to reduce trade opportunities for their partners by recourse to import substitution strategies, it would lead to dangerous disillusionment with the whole process of trade liberalization in their favour by the creditor countries. One member from a developing country however remarked that import substitution policies designed to mobilise unemployed factors of production could contribute to growth in the economies of developing countries which would in turn generate a higher rate of growth of imports.

40. One member remarked that the present financial crisis reflected the cumulative outcome of a number of economic trends that have been operating concurrently since the 1930s or even earlier: low elasticity of demand for commodities, in primary or processed forms, in the developed countries; protectionism in the commodity sectors in these countries and a higher rate of growth of production than of trade; creation of large surpluses in developed countries which were off-loaded on the international market; consequent decline in commodity prices and in the terms of trade of developing countries dependent on exports of commodities. These trends, compounded by two oil crises and cyclical economic downturns, had

inevitably created serious financial problems for countries dependent on exports of commodities. The policies of countries whose currencies had an international character also had a direct bearing on the situation. The combination of large budget deficits with restrictive monetary policies, high interest rates and currency overvaluation had greatly exacerbated the debt problem. Such countries had the responsibility to bring their budget deficits under control, and to ensure transfer of sufficient resources to developing countries faced with financial crisis.

41. Some members observed that while the very large trade deficit of the United States was undoubtedly a positive contribution to the economic recovery of other countries, its continuation might generate very strong pressure in the United States for drastic protectionist measures.

42. The member from the United States agreed that the US trade deficit could not be sustained indefinitely. However, despite the understandable Congressional concern in regard to it, the Administration had taken the risk of a conscious decision not to adopt general trade restrictive measures, as a means of correcting this imbalance. They had also very largely succeeded in resisting protectionist pressures from specific industries. This was a clear reflection of their positive attitude towards the efforts of the debtor developing countries to maintain and enlarge their trade surplus with the United States. They were hoping that the recovery of the US would generate recovery in other countries as well, leading to higher export demand that would correct the overall imbalance in the long run. It was very much to be hoped that the Administration would not be faced with a situation, domestic or international, that would undermine their willingness to go on sustaining the deficit.

43. The Chairman remarked that the GATT's Annual Report on International Trade would consider how the US deficit provides increased trade opportunities for others, the distribution of this surplus among exporters to the US, and the types of products which are sucked into in the US market. Some US export industries were clearly having to fight hard to maintain their competitiveness in present conditions, and were therefore going through an adjustment process, but this implied that they would emerge with formidable strength once the value of the dollar declined.

44. In conclusion the Chairman observed that his comments on the question of closer cooperation between the GATT secretariat and the secretariats of the World Bank and the IMF were intended to refer to more frequent meetings between the heads as well as the staffs of the three institutions, with a view to the efforts that the three institutions could make to sensitize their different constituencies to the problems which had been discussed today. However, discussion in GATT of the broader macroeconomic situation and of the inter-linkages between trade policy and the problems of international finance did not mean that the GATT wished to stray outside the proper purview of its own charter, or to negotiate problems which belonged to the purview of the Bank or the Fund. By the same token, it was useful and necessary that the Bank and the Fund, and the financial community in general, should be fully informed of our concerns in the field of trade policy, so that they could deal with problems of international finance and development with due regard to trade policy considerations. In this context it was important to correct any impression that problems of trade policy could lend themselves to easy or quick solutions, and he believed that the development of closer contacts with the Fund and Bank staffs had been useful in this.

Item 3 - Other Business - Ministerial Work Programme

45. The Chairman observed that a crucial stage was being approached in the implementation of the work programme adopted by Ministers in 1982. The importance of the work programme, which covered all the major problems of the trading system, had become more evident as time had passed. He regarded its implementation as the priority for work in GATT this year, and its follow-up next year as equally important. It would require a great effort to complete the implementation in time for the November Session of the CONTRACTING PARTIES. However, the effort had to be made, and it was suggested that the CG.18 be fully informed of progress. He therefore suggested that the implementation of the work programme should also figure on the agenda of the next meeting of the CG.18.

46. A number of members expressed disappointment and concern at what was considered unsatisfactory and insufficient progress in the implementation of the Ministerial work programme. It was remarked that while work in the Committee on Agriculture had advanced considerably, progress in certain other Committees had been painfully slow. One member suggested that much of the credit for the progress achieved in agriculture was owed to the Chairman, who had given leadership and a sense of direction to the work of the Committee, and that other Committees would also benefit from more aggressive leadership. The Director-General and the secretariat also had a part to play in this. Perhaps the Study Group appointed by the Director-General could also make a contribution to progress. Another member was of the view that the inertia in the work of many of the Committees was owing not so much to lack of initiative or leadership on the part of their Chairmen, or of zeal on the part of the Geneva delegations, as to the fact that delegations were often hamstrung by narrow and rigid briefs received from capitals, and were therefore unable to work towards consensus solutions.

47. A number of members remarked that the credibility of GATT as an effective framework to safeguard and promote the open multilateral trading system was at stake. Already, there had been a considerable erosion of confidence in the GATT, and failure to implement the Ministerial work programme (which embraced all the important areas in which problems needed to be resolved) could result in irreparable damage to the system and to GATT as its institutional expression. The point was made that economic recovery could not be expected to lead automatically to trade liberalization; protectionism was becoming stronger and protectionist actions were proliferating despite the emerging recovery and the decline in unemployment. These trends underscored the importance and urgency of finding real and substantial answers to the problems identified in the work programme, however difficult and complex they were, if the system was to survive. Mere "optical solutions" would do more harm than good.

48. One member remarked that it was a mistake to try to evaluate progress in the implementation of the Ministerial work programme from the status of work in individual Committees. The position had to be appreciated in a wider perspective. The Ministerial Declaration comprised broad commitments of a political nature (such as adherence to the principles and disciplines of the General Agreement, and resistance to protectionism), certain commitments of an operational nature, and a work programme in certain specific areas in which progress appeared to be possible. The work programme was part of the

whole and could not be separated from the general context. In attempting an evaluation of a somewhat mechanical nature, the qualitative aspect was being left aside. He believed that important progress had been achieved since the Ministerial meeting in resisting protectionist pressures and in reversing unsatisfactory trends, as witnessed the widespread talk of a "roll back" of protectionism. These qualitative changes had given the necessary signal to economic operators at large of the renewed commitment and determination of the contracting parties to preserve and defend the open multilateral trading system. Even in individual areas of the work programme, in his view, considerable progress had been achieved. Remarkable progress, virtually amounting to a breakthrough, had been achieved in the relatively difficult area of Agriculture, opening serious possibilities that something substantial could be accomplished. In other areas also there were a whole series of indications of a maturation of policies and of minds which could help prepare the ground for consensus solutions.

49. Referring to the negotiations on Safeguards, some members expressed their disappointment that so little headway had been made towards the "comprehensive understanding" visualized in the Ministerial decision. One member however thought that though perhaps it had not been wise to fix a 1983 deadline for the completion of this work, considerable progress had been made. For instance, there was already a broad understanding on the temporary nature and degressivity of safeguard measures. Other members suggested that even if a comprehensive agreement was not so far within reach, a start should be made with a partial agreement: an interim agreement could possibly be based upon better transparency of safeguard measures and a permanent machinery for the discussion of these measures.

50. Satisfaction was expressed on a number of elements in the programme - for example, the good start made on quantitative restrictions and other non-tariff measures and the fact that the Part IV consultations were progressing satisfactorily. There was disappointment that the precise and specific possibilities for further progress identified in the work on tropical products had not so far drawn positive and forthcoming responses from the developed importing countries. Some members said that they were keenly looking forward to the secretariat study on textiles, which they hoped would be the first step towards bringing textiles trade within the normal framework of GATT rules. One member observed that it was important from the point of view of his country that there should be effective monitoring of adherence to the Ministerial Declaration on abstention from restrictive and discriminatory trade measures taken for non-economic reasons.

51. It was suggested that the secretariat should circulate a report on progress to date on each item of the work programme, commenting where possible on obstacles encountered and prospects for further progress. One member however observed that any evaluation would have to be handled very carefully, since not all progress was quantifiable and the overall view was perhaps more important than progress in individual sectors.

52. The Chairman concluded that in the extremely difficult and dangerous situation facing international trade relations at the time of the Ministerial meeting, the adoption of the work programme by the Ministers was by itself of cardinal importance. November 1984 was the deadline agreed for the implementation of many of the items of the work programme and there could be no question of deflection of attention or flagging energies as the deadline

approached. The credibility of GATT was bound to be judged in the light of its ability to deal effectively with the critical and complex problems confronting the trading system. He proposed that the CG.18 resume its discussion of the progress of the Ministerial work programme at its next meeting in July. He thought that it would not be realistic to bank on the availability of the report of the Study Group also in time for the November meeting of the CPs. Responding to the request for a written report by the secretariat, he remarked that a report would be made available shortly even though, at this stage, he could promise no more than a short, objective and factual report in regard to the status of work in each of the items of the work programme.

53. There was an extended discussion of the various proposals that had been made concerning the preparation of a new round of multilateral trade negotiations. A number of members expressed concern that such talk could divert attention and energies from the Ministerial work programme, and therefore delay its completion. Some of the problems covered in the work programme were urgent, and contracting parties could not simply defer their solution to a new multilateral round. Without a substantial fulfilment of the commitments made in the Ministerial Declaration, such as roll back, and successful completion of the work programme, talk of preparing for a new round could hardly be taken seriously.

54. Other members observed that they saw no conflict or contradiction, but rather a logical connection, between the completion of the Ministerial work programme and preparations for a new round of multilateral trade negotiations. The work programme included a number of fundamental issues which could not realistically be settled before November, and much of the programme was explicitly intended to have a preparatory character - the Textiles Study for example. The idea of a new round had only been floated informally so far, and though their governments had expressed support for it in principle, they realized that it would require very extensive and careful preparations. In the meanwhile, they saw no reason why there should be any diversion or weakening of efforts to fulfil the Ministerial work programme. In fact, the successful and effective implementation of the work programme would be the best possible preparation for any new round.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/22

11 November 1983

Special Distribution

Consultative Group of Eighteen
Twenty-second Meeting
19-20 October 1983

NOTE ON THE TWENTY-SECOND MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-second meeting on 19-20 October 1983. The annotated provisional agenda was circulated in CG.18/W/75 and the list of participants in CG.18/INF/23.

2. The agenda was as follows:

1. Trade Policy and the International Financial System
2. Implementation and present state of the Ministerial Work Programme
3. Other Business

Item 1 - Trade Policy and the International Financial System

3. The Group had before it a paper on this subject by the GATT secretariat (CG.18/W/76), the first part of which dealt with trade policy and the international financial system, and the second part with action in the GATT framework including cooperation between GATT and the multilateral institutions. The Group also had before it the first chapter of the secretariat's report, International Trade 1982/83 (GATT/1340).

4. Introducing the discussion, the Chairman said that the crisis afflicting the trade and financial systems could not be resolved in the absence of trade recovery on a major scale, which would not happen unless positive steps were taken to remove the negative effects of trade policy measures and initiate a process of liberalization. Trade liberalization was a necessary but not a sufficient condition for the resolution of the financial crisis. There was little scope for further reduction of imports by indebted countries without severe damage to their economies and to the prospect of general recovery. In the immediate future, dealing with the debt crisis was largely a matter of arranging the necessary financial flows. In this time-frame the main effect of measures aimed at restoring the health of the trading system would be on business confidence and investment, and here an improvement of trade relations between the major trading countries would make a major contribution. In nearly all discussions of the debt crisis and the possible role of trade policy in alleviating it, attention had been focussed, perhaps inevitably, on the difficulties of the most indebted countries and on what might be done to help them directly. But it was extremely important that in trying to solve the temporary crisis of indebtedness, long-term damage to the international

trading system be avoided. The most essential characteristic of an efficient trading system was its multilateral character. Bilateralism in any form distorted trade flows and reduced efficiency. Therefore, the benefits of any trade concessions made should be multilateralized through the MFN principle. This was why all the operational proposals in the paper were intended to apply to all developing countries without distinction. The paper referred to the consultations on Part IV of the GATT and the consultations with developing countries in the Balance-of-Payments Committee as fora in which the political will to contribute to the resolution of the crisis could find practical expression. The Chairman's opening remarks have been circulated in CG.18/W/77.

5. After a thorough examination of CG.18/W/76, members generally supported its analysis of the linkages between trade and finance. They also gave broad support to the paper's proposals for adapting the work of certain GATT committees to take greater account of these linkages. There was complete agreement that efforts to solve the problem of indebtedness should be pursued in a manner that safeguards the integrity of the multilateral trading system.

6. Some members considered that the latter point was not brought out with sufficient clarity in the secretariat paper. While they agreed with the principle of closer cooperation between the IMF and the GATT, these members also warned that the secretariat should avoid any direct involvement in negotiation between the Fund and indebted countries on the liberalization of their trading régimes or which could be seen as monitoring their fulfilment of standby agreements negotiated with the Fund. The point was also made that many debtor countries had already stretched their resources to the limit and were simply unable to increase imports further, so that additional liberalization by them would merely lead to a shift of imports from capital to consumer goods. With this in mind, one member suggested that, as a first step, developed contracting parties might agree to a standstill on trade restrictive measures between themselves and to roll back restrictions by them affecting developing contracting parties, while for their part developing countries should agree to a standstill on measures affecting developed contracting parties.

7. One member said that whereas in the current economic situation the GATT might have been expected to bring a positive influence to bear on the perceptions of the international financial institutions as regards the position of developing countries, the opposite seemed to have happened; this was reflected in the excessive attention paid to problems and trade policies related to the servicing of debts in the secretariat paper. For debtor countries, as for other developing countries, the problem was not simply repayment of debt but the continuation of economic development. To urge trade liberalization now, if it merely brought about the substitution of capital goods imports by consumer goods, would be to nobody's benefit. The paper also strayed outside the competence and the contractual framework of the GATT in dealing with such issues as investment policy and creditworthiness. Since surplus countries also had an obligation to contribute to the restoration of equilibrium, their policies also should be examined in the GATT, and this should have been reflected in the paper.

Another member agreed that the burden of adjustment had to a large extent been shifted from the strong to the weak through the operation of such factors as high interest rates, exchange rate instability and debt repayment conditions.

8. It was however suggested by a number of speakers that opposition to any development or change in the activities and responsibilities of GATT risked stifling the organization and would reduce the benefits all contracting parties could derive from it.

9. Another member said that in his view the problem of indebtedness resulted largely from misguided policies pursued by debtor countries, though their situation had certainly been exacerbated by the current economic environment. In this emergency austerity programmes involving reductions of imports - and hence of exports from other countries - were probably inevitable, though restriction of trade could not be the right way to restore long-term equilibrium. Debtor countries could make an important contribution to their own economic recovery by creating a favourable climate for private investments from overseas and at a later stage it would be very much in their interest to pursue trade liberalization policies, in order to ensure that their industries remained competitive.

10. One member said it would be useful to analyze in quantitative terms the possible impact of trade liberalization on alleviating the debt problem. He and another member also stressed the importance of agriculture in the process of international economic adjustment. A meaningful liberalization must cover both industrial and agricultural products. One of these members said that his own country had been moving steadily to make its economy open to competition. He expressed the hope that other countries would do likewise as everyone would gain from such a process. Increased transparency, particularly in the agricultural sector, would greatly facilitate the process.

11. In a discussion of the possibility of further trade liberalization in the short and medium term, several members expressed doubt as to the ability of countries in chronic deficit to participate in such a process, particularly so long as existing GATT obligations were not fully respected. These included the special obligations of developed countries towards developing contracting parties. Other members maintained that in the light of the multilateral principle and in order to secure for their own economies the efficiency gains deriving from the open trading system, all contracting parties should contribute to the liberalization process to the degree permitted by their economic circumstances.

12. Other members stated that further opening of markets would depend in part on the pace of world economic recovery. They could not at this time commit themselves to significant steps towards liberalization in isolation from what others did. The pace, and the political and social costs, of restructuring in their traditional industries were already very high, but nevertheless access to these markets for developing countries was being maintained and very large trade deficits with the most indebted contracting parties were being absorbed. It was suggested by others, however, that debate about whether recovery or liberalization should come first would be unproductive. Liberalization would in itself contribute to recovery by increasing efficiency of resource allocation in both debtor and creditor

countries. There was clearly a need for increased coordination at the national level between trade and finance ministries, so that the effects of factors contributing to the current crisis, such as excessively high interest rates and currency disequilibrium, could be properly appreciated and the necessary action taken.

13. One member informed the Group that in the coming days his authorities would announce the implementation of an important series of measures aimed at stimulating economic activity and facilitating access to its domestic market. Another member said that his country had also been pursuing autonomous policies of trade liberalization, with the result that in the last five years imports had increased threefold while exports stagnated. Now, confronted with a \$US 3 billion deficit, they had no option but to subsidize certain exports.

14. Another member said that trade liberalization could perhaps contribute more quickly and directly to general recovery than most other remedies. Even in the short term its psychological effects would be important. His own country was making a substantial contribution to recovery elsewhere by deliberately refraining from action to reduce a trade deficit likely to reach \$US 100-115 billion next year. They were also willing to liberalize further, but could not act alone: it would be impossible to obtain the necessary parliamentary authority unless it could be demonstrated that all sides, including major developing countries, were willing to participate.

15. Turning to the question of cooperation between the GATT and the multilateral financial institutions, several members noted that some contracting parties were strongly opposed to IMF conditionality, and consequently felt that GATT should in no way act as the monitoring arm of the Fund. The point was made that if it were a question of ensuring that commitments undertaken in IMF arrangements were not inconsistent with GATT, it was open to contracting parties, by the reverse notification of trade measures or by recourse to Article XIII, to raise these issues in the GATT.

16. It was agreed that contacts between the GATT and IMF Secretariats should be more regular and systematic, but that care should be taken to stay within the respective spheres of competence of each institution. Some members felt that the GATT secretariat could assist borrowing countries by making the Fund more aware of the trade problems facing them, and by trying to orient the Fund's recommendations as far as possible in the direction of export expansion rather than import restriction. In response to a suggestion that the secretariat might give technical assistance to borrowing countries, the Chairman undertook to consider the possibility but pointed out that any contracting party could seek the advice of the secretariat at any time.

17. One member said that in his opinion the IMF had become a victim of its own orthodoxy; there were doubts as to whether its prescriptions really contributed to balance-of-payments equilibrium. It was suggested in reply that if this were true, the case for closer cooperation between GATT and IMF as a means of inculcating the reality of trade problems, was strengthened. Another member added that the desirability of establishing more formal, as well as more regular, links with the Fund should be further studied.

18. In reply to a question concerning cooperation between the GATT and the World Bank, the Chairman recalled that there was no institutional link between GATT and the Bank as there was with the IMF, but he said that informal contacts were increasing between the two secretariats and a seminar on GATT by senior GATT staff would be held in the Bank in the near future.

19. In discussion of the possibility of holding joint meetings between the CG.18 and the Group of Twenty, as had been proposed by the Chairman of the Bank/Fund Development Committee, some members expressed support for the idea. The Chairman noted that if they were to be of practical use, such meetings would require very thorough and precise preparation. He added that the next meeting of the Development Committee was expected to be devoted to the link between trade and finance.

20. The Annex to CG.18/W/76 contains proposals concerning the work of the Balance-of-Payments Committee and the Committee on Trade and Development. These received a wide measure of support, but some members felt that it would be wrong to over-emphasize the rôle of the trade policies of countries consulting in the BOP Committee in promoting development and the efficient use of resources. It was generally agreed that the Committee should pay more attention to the impact on consulting countries of trade restrictions maintained by other contracting parties. It was noted that paragraphs 11 and 12 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes were relevant here. One member said, however, that there could be no obligation for the consulting country to notify trade liberalization measures taken under IMF arrangements, as suggested in paragraph 3 of the Annex to the secretariat paper. The only legitimate question was whether the contracting parties concerned were observing GATT rules. The Chairman commented that the secretariat was not suggesting that there should be notification in the legal sense, which would imply an obligation to notify, but rather the voluntary submission of information as a means of ensuring fuller recognition of their liberalization efforts.

21. One member suggested that developing countries in severe balance-of-payments difficulties should be allowed certain departures from GATT obligations - for example, by subsidizing exports without provoking countervailing measures. Another member said that while the Balance-of-Payments Committee might have a rôle in identifying possible remedies for the problems of developing countries, he would prefer to rely on the preventive functions of the Committee on Trade and Development.

22. It was agreed that the Chairman should suggest to the Chairman of the Balance-of-Payments Committee that the proposals made in the Consultative Group be considered by the Committee itself and that perhaps some specific suggestions could be submitted to the Council before the next meeting of the Group.

23. Members welcomed the creation in the secretariat of a Trade Policies division. It was noted that the question of secretariat resources might have to be addressed in this connection.

24. In his concluding remarks, the Chairman said that the Consultative Group had touched upon some very sensitive areas of policy which required better co-ordination not only between international institutions but also between interested ministries in the different capitals. All members had

agreed that the trading and financial communities were more than ever interested in trade expansion and in a predictable and solid trading system. There was also a wide consensus in the Group that the expansion of trade could be a key contribution to the world recovery and in particular to the recovery of those countries which were in a difficult debt situation. But in terms of the need to increase the flow of financial resources this was only part of the whole picture. The Group had regarded two points as essential. The first was that great care should be taken not to infringe the principle of multilateralism which was the basis of the GATT; the second, that trade problems and trade negotiations should be dealt with under the aegis of the GATT. All members had recognized the fact that through its standby or other arrangements, and in particular through its surveillance activities under Article IV of the Articles of Agreement, the Fund looked at the general economic policy its members, and that this included trade policy. As regards the improvement of GATT/Fund cooperation, there had been support for the improvement of communication, to ensure that the Fund was fully aware of trade policy problems and better able to take full account of the external trading environment facing debtor countries. The GATT secretariat could give technical support to the Fund but at this stage could not envisage a different approach. In order to maximize its own contribution the secretariat should pursue its normal activities - identifying trade problems, defining possible solutions and helping in their implementation. With regard to synchronization of Balance-of-Payments Committee consultations and Fund consultations, the Chairman said that this might be very difficult to arrange in practice, but if it proved possible it could provide better information on the trade policies of the consulting countries, and on any moves towards trade liberalization by these countries. This would help them to get full credit for such moves, but he reasserted that there was no question of GATT monitoring commitments under IMF standby or extended arrangements.

25. In response to a specific question, the Chairman said that the background papers prepared for consultations in the Balance-of-Payments Committee could be extended to include the trading environment facing the consulting country. The secretariat would concentrate on facts and not attempt to pass judgement on any contracting party's policies, but in accordance with normal practice it would present such papers on its own responsibility.

26. To a question by a member who feared that providing information to the Fund's staff and not to the consulting country might be prejudicial to the country's interests if, as a result of the information provided, the Fund were to demand stricter conditions than would have otherwise been the case, the Chairman said that in his view the briefing of Fund staff would not create such prejudice. The purpose was to allow the Fund to make an accurate and complete assessment of the trade situation of the consulting country. The role of the secretariat was to try and promote liberalization and expansion of trade, not its restriction.

27. One member said in this connection that the GATT should be careful, throughout the process of information exchange, not to invite the Fund to involve itself in trade disputes between contracting parties, or take positions on them.

28. The Group agreed to keep this item on its agenda for the next meeting.

Item 2 - Implementation and present state of the Ministerial Work Programme

29. The Chairman said that the work programme adopted by Ministers in November 1982 was at the half-way stage and it therefore seemed appropriate to consider whether this work was on course for a satisfactory outcome at the 1984 Session. The work programme represented the result of a major effort by the CONTRACTING PARTIES to counteract what was seen as a dangerous and perhaps critical threat to the world trading system. Nobody was entirely satisfied with this as the main product of the Ministerial meeting but it was generally agreed that a conscientious and thorough implementation of the work programme would have at least three beneficial effects. First, it would give a demonstration that the trading nations were still capable of working together with a view to the maintenance and improvement of the trading system. Second, it would provide a chance to remove or alleviate some of the causes of friction which had plagued trade relations for so long and thirdly, and most important, this work programme should, if implemented in full, provide a basis from which, if the will to do so existed, the trading community could move forward.

30. The Chairman suggested that the Group should reflect whether the thirty-ninth session should be used to give the work programme a higher profile and a stronger political emphasis. It should also start considering what decisions would need to be taken at the 1984 session so as to chart the future course of work in GATT on the basis of the conclusions to be drawn from the work programme.

31. In the discussion which followed it was generally recognized that the work programme was not an end in itself but constituted a basis for strengthening the GATT and its multilateral framework. Some positive results had already been achieved, for example in the Aircraft Committee. The Committee on Trade in Agriculture had also made a good start, and it was important that its work be pursued with urgency.

32. One member pointed out that the outside world was not sufficiently aware of the good work being done in various GATT bodies, such as the recent agreement to extend the duty free coverage of the Agreement on Civil Aircraft, which could certainly help to keep up the momentum of liberalization. At the same time he had to express his disappointment at the slow progress of the work on safeguards. He further referred to concrete measures his Government was taking in order to contribute to the progress of liberalization. Those included the accelerated implementation of tariff cuts agreed in the Tokyo Round, major revision of the standards and certification systems, extension of the GSP scheme and special tariff reductions in favour of the least developed countries. He expressed the hope that other major trading countries would make similar efforts.

33. Another member said that from the perspective of a middle ranking country the present situation in the world trading system gave rise to serious concern. His country had recently suffered a number of protectionist actions, ranging from restriction of access to certain markets for its exports to increased competition through cheap credits and export subsidies in third country markets, and was thus obliged to share the burden of others' adjustment problems. He was also concerned about the increasing frequency of bilateral discussions outside the GATT on matters of crucial importance to other contracting parties. All these developments

put his country on the defensive and were forcing it to take action to protect the interests of its industry. He therefore considered that the GATT system should be strengthened and contracting parties given the means to do their job within it. He appealed to the major trading countries to stop the trend towards bilateralization and to accelerate the implementation of the Ministerial programme.

34. One member said that the commitment in paragraph 7(i) of the Ministerial Declaration had so far had little impact on liberalization. On the contrary, protectionism continued to spread and the number of trade disputes to increase. The Group should consider, in the wider context of improving the functioning of the dispute settlement mechanism, how to make the conciliation process in GATT more effective.

35. Summarizing the discussion, the Chairman noted the general view that the work programme should be implemented and brought to constructive proposals so that governments could act on it. Some of the work was proceeding satisfactorily, but concern had been expressed about the slow progress of work on safeguards. He suggested that at its next meeting the Group should discuss another major problem, that of subsidies, and this was agreed.

Item 3 - Other business

36. One member proposed that the secretariat prepare, as a basis for further consideration by governments, a study on problems related to counter-trade and barter arrangements, dealing with such issues as the nature and extent of counter-trade and the relevance to it of GATT rules. It was agreed that such a paper would be prepared, if possible for the next meeting.

37. The date of the next meeting - late February or early March 1984 - will be agreed in consultation between the Chairman and members.

NOTE FOR PARTICIPANTS
IN THE CONSULTATIVE GROUP OF EIGHTEEN

The attached confidential note, which has been prepared by the secretariat on its own responsibility, outlines the main points made in the course of the twenty-first meeting of the Consultative Group on 5-6 May 1983.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/21

23 June 1983

Special Distribution

Consultative Group of Eighteen
Twenty-first Meeting
5-6 May 1983

NOTE ON THE TWENTY-FIRST MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-first meeting on 5-6 May 1983. The annotated provisional agenda was circulated in CG.18/W/73 and the list of participants in CG.18/INF/22.

2. The agenda was as follows:

1. Review of Developments in Trade Relations and Trade Policy since the GATT Ministerial Meeting
2. The Relationship between Trade Policy and the International Financial System
3. Other Business

Item 1 - Review of Developments in Trade Relations and Trade Policy since the GATT Ministerial Meeting

3. The Chairman said that his intention in proposing this subject had been to give the Group an opportunity to consider developments in trade and trade relations since the Ministerial Meeting, more particularly those developments which, in the view of the secretariat, gave grounds for concern. As a framework for discussion he proposed that the Group consider the implementation of the political commitment contained in paragraph 7(i) of the Ministerial Declaration, together with the trade measures taken by contracting parties since November; the closely related question of safeguards; and problems arising in the field of dispute settlement.

4. The Chairman continued that paragraph 7(i) of the Ministerial Declaration contained an unqualified commitment to refrain from taking or maintaining any measures inconsistent with GATT and must be regarded as the heart of the political undertaking adopted by Ministers. Such a commitment must be taken seriously and it therefore became necessary to ask how trade measures taken since November related to paragraph 7(i). If any such measures were not consistent with GATT, they would clearly be in breach of the political undertaking also. Furthermore, paragraph 7(i) contained a commitment to make determined efforts to avoid measures which would limit or distort trade; here it was proper to ask of any such measure, whether

or not it was consistent with GATT, if such determined efforts had in fact been made. Was it necessary to create a procedure which would ensure that these questions would be asked systematically, bearing in mind the existence of the commitment under the Framework Agreement to notify the contracting parties of the adoption of trade measures affecting the operation of the General Agreement?

5. This question applied directly to a number of trade measures taken since November. These fell into two broad categories. First, a number of developing countries had introduced wide-ranging controls on imports, reversing a previous trend towards liberalization. This had sometimes been done in response to balance-of-payments pressures, and sometimes in reaction to trade restrictions by other countries. Whatever their cause, these developments were very unfortunate, particularly in their effects on the countries adopting them. Secondly, some industrialized countries had taken measures to protect particular industries against foreign competition. Most of these measures had not been notified to GATT. It must be asked how these measures relate to GATT obligations in general and with paragraph 7(i) of the Ministerial Declaration in particular.

6. In the discussion which followed no member of the Group disputed that the commitment in paragraph 7(i) must be taken seriously or that action must be taken to monitor the extent to which any trade measures taken by contracting parties were consistent with it. However, different views were expressed on the question whether it would be necessary to establish some new or special mechanism or forum for this purpose, or whether it would be sufficient to make use of existing committees and procedures. One member said that his government could accept the creation of a new body, or the use of existing ones; in either case they would be willing to notify measures taken by them for examination in the GATT. Another member said that although in his view the creation of an entirely new mechanism was desirable, he feared that it would be impossible to achieve agreement on this and therefore suggested that the secretariat should propose a monitoring system which would make use of existing institutions. It was also pointed out that the essential need was to ensure that trade restrictive measures came onto the agenda of the GATT, by whatever means. Since November a number of actions of this kind had been taken but could not be discussed because they had not been notified by the governments responsible.

7. Other members took the view that it would be unnecessary to set up any special mechanism, since the existing obligation to notify (Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance) covered trade measures of all kinds and existing committees had the necessary authority to deal with them. One member pointed out that, where necessary and possible, the Ministerial Declaration had stipulated the procedural measures necessary for the implementation of decisions. In the case of paragraph 7(i) no such agreement had been reached. Furthermore, for reasons of national sovereignty it would not be proper for GATT to debate the formulation of national policies. On the latter point it was

suggested by another member that while legislative proposals could hardly be discussed in GATT, once legislation was enacted, and to the extent that it affected the trade interests of other contracting parties, such discussion ought to take place - if necessary at the request of third countries.

8. One member said that his government deplored any measures inconsistent with GATT or with the spirit of the Ministerial Declaration, but one had to bear in mind the reasons why some governments felt obliged to take such measures and others, however unwillingly, to concur in them. These reasons were often political, and they needed to be discussed in a forum such as the CG.18 which permitted frank exchanges. Defects in GATT mechanisms were not the essential problem. Another member, however, said that in his country there was a widespread perception that the GATT had failed to provide discipline and security and was becoming of marginal relevance. Major issues were increasingly being treated outside GATT among very restricted groups of countries, which weakened both the GATT itself and the attachment to it of smaller contracting parties. The secretariat should therefore monitor all measures taken outside the GATT.

9. Another member said that although few countries were satisfied with paragraph 7(i), for various reasons, it was a fundamental part of the Ministerial Declaration because the problems it sought to deal with were one of the main reasons for calling the Ministerial Meeting. Of the three elements in the paragraph, the unqualified commitment to refrain from measures inconsistent with GATT merely confirmed an existing obligation and in most cases could be dealt with through the normal dispute settlement machinery of Article XXIII. A problem might arise over a measure affecting the general interest, on which no one contracting party felt able to make a bilateral complaint. As for the "determined efforts" clauses of the paragraph, he was not sure that Article XXIII could be invoked. His own preference would be to ensure the widest possible examination of any measures taken, first at a technical and secondly at a political level. The best forum for this would be the Council meeting in special session - if necessary twice rather than once a year. He shared the concern expressed by another member that the existence of the Codes had brought about a certain "compartmentalization" of the GATT, with non-signatories of the Codes receiving inadequate information and, in general, less than adequate consideration. In this respect also small countries were losing their ability to influence events and the unity of the system was being lost.

10. The Chairman asked if the representative of any country which, since November, had taken or been involved in restrictive measures and had not formally notified the GATT would be willing to explain the relationship between such measures and paragraph 7(i). In reply, one member said that some economies had been able to adjust much less quickly than others and that this had caused severe social and political problems. Despite its concern for the credibility of the GATT system his country had in certain cases felt obliged to take measures - which they did not regard as

legitimate or desirable in themselves - in the hope that these would enable their trading partners to overcome these adjustment problems. Protectionist pressures of this kind would persist if the adjustment capacity of national economies were not improved. Another member said that some measures in the "grey zone" had averted damage to GATT by defusing dangerous conflicts. The conflicts arose from the economic crisis and were likely to be particularly acute where countries suffering high unemployment had practised particularly liberal and open trade policies. It would certainly be right to consider all such measures, but the commitments in paragraph 7(i) must be looked at in conjunction with 7(vi) and 7(vii). It must also be remembered that actions in the grey zone, by definition, could not necessarily be qualified as illegal.

11. The Chairman said that the secretariat would be willing to monitor all trade measures, as several members had suggested, but could not do so effectively on the basis of information gleaned from newspapers. If contracting parties wanted this job done, they must put the secretariat in a position to do it by providing all necessary information. Several members agreed that the present lack of information was intolerable, particularly given the existing obligation to notify, and it was suggested that when the secretariat heard of any un-notified trade measures it should take the initiative of requesting full information of the governments concerned. This would not release governments from their own obligations to notify. It was also pointed out that the notification of trade measures, or the publication of information about them by the secretariat, would in no way imply their consistency with GATT rules: there was no dissent from this.

12. Summing up this part of the discussion, the Chairman said he believed that the proposal to consider the implementation of paragraph 7(i) in a special Council meeting had the support of the Group. He also took it that members of the Group would recommend to their authorities that the obligation to notify trade measures should be strictly observed. He again underlined that notification did not imply legality; the point was to give the Council an opportunity to check the consistency of measures taken with GATT obligations and the commitments accepted in November.

13. Turning to the question of safeguards the Chairman informed the Group that in informal consultations under the chairmanship of Ambassador Ewerlöf a good deal of light had been thrown on the nature and motivation of "grey area" measures, thanks to the cooperative attitude of those participating in the discussions. This should enable the secretariat to complete a fuller picture of these measures and of their relationship with all relevant GATT articles - not merely Article XIX. An interim report on the consultations would be made before August and it might at some stage be necessary to consult the CG.18 on next steps.

14. Several members expressed concern at the slow rate of progress, which in their view would make it difficult to put a substantive report to the November Session. One member argued that if in fact there was serious

interest in negotiating a new agreement on safeguards - and he was not sure that that was the case - negotiation would have to begin in September. Several members agreed that the question must be given high priority, so that at the November Session it would at least be clear that a serious attempt to negotiate had been made.

15. It was pointed out that the present exercise was new and that it centred on the reasons why, in specific cases, contracting parties have found it preferable to act outside the GATT rather than to apply Article XIX or other GATT articles. It was interesting to hear it claimed that such action was necessary to avoid a worse alternative - which presumably meant use of Article XIX. Did this mean merely that Article XIX requirements could not be fulfilled by the countries in question, because they lacked the means of compensation? The point was also made that work should not concentrate only on clarifying or supplementing the rules for application of Article XIX; many other types of safeguard measure were being implemented and they must all be considered. The Chairman said that after a slow start good progress was now being made in looking at concrete cases rather than at theoretical concepts and that the Chairman of the Council had the time schedule firmly in mind.

16. The Chairman said that some of the more disturbing developments since November had been in the area of dispute settlement. First, difficulty in finding chairmen and members of panels was greatly increased by the very marked tendency of countries involved in disputes to consider potential panel members not in terms of their personal qualities but in terms of their national allegiance. Secondly, in some recent cases panel members had been put under wholly unacceptable pressures in what could only be regarded as attempts by parties to disputes to influence their position on the cases they were considering. A system based on members of national delegations could survive only if the independence of those persons was respected. Otherwise it might be unavoidable to establish a standing body of panelists who would not be members of any national administration and who would, if necessary, be paid for their services as panel members. Thirdly, there was a problem of the quality of panel reports. Ideally, the reports of panels should be so well argued and clear that they commanded the acceptance at least of all disinterested persons. This had not been so in some recent cases and one of many possible reasons might be that panels were asked questions which could really be solved only through negotiations. There was also a problem of confidentiality. Confidentiality was essential during the period when the conclusions of a panel were released only to the parties to the dispute in order to give them the best chance of finding a mutually-acceptable solution. However, in some recent cases conclusions had been very quickly leaked to the press and that seemed to be a sure way of destroying any chance of reaching a compromise solution.

17. One member said that his country would normally be in a position to settle a dispute bilaterally without informing anybody. This would, however, be very undesirable; the dispute settlement mechanisms should be

used. Indeed, they became more and more crucial, for his country and for others, as an instrument for fending off protectionist pressures. As to the nomination of panelists, there was a gentlemen's agreement in the Tokyo Round that parties would not oppose nominations except for compelling reasons and this agreement should be re-emphasized. It was regrettable that despite the shortage of eligible panelists, officials from the United States and the EEC were practically excluded from nominations because those countries were considered as having a real or potential interest in almost all disputes. The idea of having professional panelists might be worth considering if it would rationalize the system. Referring to the quality of panel reports, he quoted a recent case in which the Panel had been unable to reach any decision on the issues with which it was confronted. If necessary, the terms of reference of panels should stipulate that a decision must be reached. In his view the dispute settlement system was not being overloaded. Recent leaks of panels' conclusions to the press were regrettable but it was hardly realistic to expect that confidentiality would be observed during a thirty-day period and therefore time-periods for mutually-acceptable solutions should be shorter.

18. One member said that improvement in the functioning of the dispute settlement mechanism was closely related to improvement in the functioning of the GATT mechanism in general. Council decisions and adopted panel reports would not be respected if the GATT provisions themselves were not respected. As to the nomination of panelists, he agreed with the previous speaker that no country should be a priori excluded because of its potential interests. Panelists should be nominated mainly from Geneva-based delegations, although in some cases recourse to other outside sources should not be excluded. Some recent panel reports had not been helpful to the Council in its duty of making a ruling or a recommendation. Whether or not the Council adopted a report was not the essential question: but the Council must assume its responsibility and make a recommendation or ruling of some kind. It was the function of a panel to advise the Council and of the Council to make a decision.

19. All other speakers who addressed these issues shared the opinion that the improvement of the dispute settlement mechanism was contingent upon improvement of the functioning of the GATT system itself. They also strongly emphasized the importance of protecting the independence of panelists and the confidentiality of panel proceedings. The possibility of having recourse to professional panelists was not excluded as a future option. However, for the time being, the preference clearly was to improve the availability of the members of national delegations. In this connection it was generally recognized that no country, except those directly involved in a dispute, should be a priori excluded.

20. There was general agreement that the responsibility of the Council to act upon the reports of panels was of fundamental importance. It was also suggested that at the earlier stages of a dispute the Council should assess whether a case was justiciable, and should clearly indicate which rules were applicable. It was also the Council's responsibility to ensure clear

terms of reference. It should if necessary establish rules to prevent procrastination and procedural delays - and time-limits for its own consideration of and action upon panel reports. Present procedures for selecting panel members were criticised by one member as inefficient and undemocratic: both panel membership and terms of reference should be agreed by the Council in open session. Likewise, any arrangements agreed as a result of panel proceedings should be discussed in the Council, since they might affect the interests of other contracting parties. The question was also raised whether the Council had any responsibilities in relation to reports emanating from panels set up under the Codes. In response to this it was argued that such reports could not be submitted to the Council, because several Codes imposed more obligations than the General Agreement, and rulings on these obligations should be made by those parties who had accepted them.

21. The point was also made that cases submitted to panels must be complete and properly documented. Too often complaints were made for political reasons and the substance of the matter later neglected. One member considered that panels could not be seen exclusively as judicial or as negotiating entities; they necessarily combined both functions. There were, however, noticeable differences of emphasis among members on this point. One member, while agreeing that on some especially delicate issues it might be appropriate for panels to indicate areas for possible negotiation, said that this should remain exceptional: panels must take their responsibilities and not send difficulties routinely back to the parties for negotiation. He and others emphasised that dispute settlement should not be seen as a political exercise: it must be based on the rights and obligations of contracting parties under the General Agreement, not on their relative strength. Paying too much attention to the political aspects of the case would reduce the likelihood of clear findings, and while the legal considerations might not always be overriding, a panel's assessment of the legal position should always be as clear as possible.

22. One member saw a danger in encouraging the view that panels had a monopoly of wisdom or were a sort of high court. Although GATT rules should be interpreted and applied, the panel's report should be seen as advice to the Council or the relevant Committee, which should then formulate their own decisions and recommendations. The quality of reports was a major concern, and in this connection the standard of advice given to panels by the secretariat must be carefully considered. Substantial discussion before adoption of a report was essential, because some difficulties were of a political nature and could not be solved through a panel's advice. The moment might then come when the Council should try to give guidance which would involve a compromise on both sides. In other words, a political solution should be sought; the Council should eschew a purely judicial approach and try to see other points of view as well.

23. The Chairman said there was a danger that political solutions would be a disguised form of bilateralism and would, in practice, fall within the

scope of the so-called "grey area". This might not be desirable from the GATT point of view. Referring to comments by a number speakers that the GATT secretariat should play a more prominent rôle in ensuring better quality of panel reports, he said that although the secretariat could assume increased responsibility in that respect, it was up to the panel to decide to what extent it required or would accept the secretariat's help.

24. One speaker suggested that some of the committees, and the panels set up by them, were confronted with issues which they cannot resolve because the relevant provisions of the agreements they were trying to interpret were not sufficiently clear. He wondered if the CG.18 should request the secretariat to compile a list of such unclear provisions, which might subsequently be discussed and possibly clarified in a special working party. It was also pointed out that some progress had been made at the Ministerial Meeting in improving the dispute settlement system, notably in paragraph (x) of the agreement relating to dispute settlement procedures.

25. The Chairman said that it seemed agreed by all members that members of delegations approached to serve on panels should do their best to be available and parties to disputes should not oppose nominations except for very compelling reasons. The secretariat would also be ready to inform interested delegations about developments in any consultations regarding panel membership or terms of reference. The view that greater transparency was needed in the composition of panels and their terms of reference was noted, and would be made known to the Chairman of the Council. There was also a general opinion that the Council should assume its responsibilities in handling panel reports and deciding how a dispute should be settled. That did not however absolve panels from their duties, which, in the first place, were to help the Council by submitting a good report. Another conclusion he could draw from the discussion was that the secretariat should play a more active rôle in selecting panelists and providing them with all the necessary assistance in order to ensure good reports. The points made by the Group would be of real assistance in our efforts to improve the dispute settlement mechanism. The Group might wish to revert to the problem in the future to assess the progress made.

Item 2 - The Relationship between Trade Policy and the International Financial System

26. The Group had before it a paper on this subject by the GATT secretariat (CG.18/W/74) the first part of which dealt with international financial systems and their connection with international trade, and the second part with cooperation between the GATT and the IMF.

27. Introducing the discussion, the Chairman said that the dependence of the financial system on the maintenance of an open trading system, which the GATT had been preaching for several years, was now generally recognized and widely discussed. The GATT secretariat was increasingly involved in

discussions with governments and other institutions on the trade/finance link and it would be very helpful for this purpose to have the views and advice of the Group. On the subject of cooperation between the GATT and the IMF, the Chairman informed the Group that the Fund had undertaken to finish its contribution to the study on exchange rate fluctuations before the end of this year and that the GATT secretariat would be invited to comment on this element of the study before its submission to the Executive Directors of the Fund. More generally, relations between the secretariats of the Fund and the GATT had been extended and would be further reinforced, since both organizations felt the need of additional information on each other's activities and researches in the trade policy field, notably in connection with the Fund's consultations with individual countries.

28. In the discussion which followed there was complete agreement on the importance of the links between trade policy and the health of the financial system. The secretariat's paper was found helpful and illuminating and with a few qualifications its analysis of the origins and scope of the problem of indebtedness, and of the importance of open markets as a contribution to its correction, was supported. Other major themes touched upon in the discussion were the scope for increased cooperation between the GATT, the Fund and the World Bank, and the forms which such cooperation might take, the possibility of improving the procedures of the GATT Balance-of-Payments Committee and extending the ambit of its concerns, and the difficulty of ensuring symmetry of treatment between indebted countries, or those in balance-of-payments difficulties, and creditor countries.

29. The first speaker emphasized the critical importance of greater convergence in national trade and financial policies, for the recovery and health of the world economy. This would be a major concern at the forthcoming meeting of trade and finance ministers in Paris and at the Williamsburg Summit meeting. It was hoped that future meetings of trade and finance ministers might include developing countries, whose rôle in the world recovery would be of crucial importance. It would entail reform and adjustment in their economies: but the success of these efforts would depend on the existence of open markets for their exports, and on the availability of finance. In the GATT the trade/money link found expression in the Balance-of-Payments Committee, the adequacy of whose procedures should perhaps be reviewed. Outside that Committee, there was inadequate interaction between the GATT and the Fund (and virtually none with the World Bank.) These contacts should be extended, firstly by increased exchanges of information with the Fund. The GATT secretariat could, for example, provide information and advice to the Fund for the purposes of its Article 4 consultations and even for loan negotiations. Members of the secretariat might also participate in Fund country missions in order to state the GATT view on the trade policies under review. It was important to correct a widespread miscomprehension that IMF stabilization programmes commonly restrict imports: in fact, the Fund actively promoted

liberalization and the policies it advised normally permitted higher import levels than would otherwise have been achieved. The CG.18 and the contracting parties generally should consider how the benefits of trade liberalization that would flow from IMF consultations could be disseminated through the system.

30. Another member expressed the hope that from recognition of the link between trade and financial problems the Group and the GATT could move towards identifying possible solutions. However, in both areas there were severe technical difficulties, and it would be wrong for the contracting parties to try to become involved in the technicalities of finance. The discussion should be directed towards helping the secretariat make the case for the open trading system in its contacts with the Fund and the Bank, and more widely. In the GATT Balance-of-Payments Committee itself the trade/money link was neglected to the extent that the Committee looked at only one side of the equation - the justification and the effects of measures taken for balance-of-payments reasons - but never at the means by which a consulting country's balance-of-payments position might be so improved as to make trade restrictions unnecessary. The Balance-of-Payments Committee should relate more directly with the other organs of GATT. The secretariat paper should be expanded for the next discussion and should consider more fully the reasons for the erosion of the buying power of many developing countries, which was at the root of their debt problems and of the overall decline in world trade. On cooperation with the Fund, he warned that involvement of the GATT in Fund conditionality exercises would be counterproductive. A later speaker, however, suggested that the presence of GATT representatives in Fund missions might inject greater realism into Fund programmes which too often ignored social considerations and thereby provoked unrest.

31. Several other speakers agreed that in the examinations carried out by the Balance-of-Payments Committee inadequate consideration was given to the external factors contributing to the balance-of-payments problem of the consulting countries. One member said that his country welcomed the advice received from the Balance-of-Payments Committee and elsewhere but in fact had limited control over its own destiny: so many of its exports - in agriculture, steel, textiles and so on - were subject to quota restrictions so that devaluation, for example, could have no effect in stimulating trade.

32. Another speaker said that the main causes of the high indebtedness of certain developing countries were recession, protectionism and inflation in the industrial world rather than faulty policies in the indebted countries. His own country, because of the imperative need to develop the economy, was obliged to import all that it could afford, but could not continue to import, or finance its debts, if its exports were restricted. At present some 50 per cent of its exports of manufactured products to the US, for example, were under restriction. It was true that the Fund advised liberal rather than restrictive import policies, but unless it could bring equal pressure to bear in favour of open markets in the developed world, it was

hard to see how increased imports could be reconciled with the burden of debt servicing. Because of the asymmetry flowing from the Fund's limited influence over creditor countries, he found the idea of GATT participation in Fund missions alarming. By increasing pressure on developing countries for liberalization it would increase the existing imbalance. He suggested that if the secretariat were to increase its contacts with the Fund and the World Bank, which he thought desirable, the private banking sector should also be brought in, in view of its important rôle in development financing.

33. The Chairman commented that under Article 4 of its Articles of Agreement the IMF sent missions to industrialized countries, which involved a serious examination of trade policies. It was in this context that the Fund had sought information from the GATT secretariat. The proposal that secretariat members should participate in Fund missions had never in fact been put to the GATT because the Executive Board of the Fund had not approved it.

34. A later speaker drew attention to the overwhelming influence of exchange rate fluctuations and high interest rates on the problem of debt. For example, it was calculated that debt service in the current year would cost Latin American countries some 63 per cent of their export earnings: but a 2 per cent drop in interest rates would be equivalent to an \$8 billion saving in debt service which was in turn equivalent to a 10 per cent rise in the exports of these countries to the seven industrialized countries represented at the Williamsburg Summit. Trade liberalization alone should not therefore be seen as a panacea, though it was certainly essential that markets be kept open. The effects of world economic recovery, if it developed as hoped, would vastly outweigh any conceivable change in trade policies, because the root of the current recession was lack of demand. In the EEC, for example, textile quotas were not being filled.

35. The damaging effects of high interest rates were emphasized by several other speakers. One speaker recalled that it had been suggested that if not brought under control they would be the cause of a major recession. In addition to this, durable recovery would require reasonable convergence of macroeconomic policies, since otherwise divergent growth rates might provoke protectionism. Another destabilizing factor was the exchange rates of a number of major currencies, which bore little relation to the competitive strength of the economies in question. Nor should it be forgotten that energy prices, which had been very disruptive indeed, could become so again. An important contribution to solution of the debt problem would be to ensure adequate financing of the relevant international institutions, including the IDA. (The recent increase in Fund quotas was a signal case of failure on the part of governments to understand the relationships which were the subject of today's discussion.) On the subject of "conditionality", he pointed out that unless the adjustment programmes negotiated by the Fund carried conviction with the private banks, the latter would be disinclined to lend to the countries in question: less "harsh" or realistic programmes would therefore lead to a

fall in private sector lending. In the trade field, the main contribution to recovery would be the elimination of restrictions, subsidies and other causes of rigidity in national economies. Another speaker suggested that to seek to allocate blame for the debt crisis was somewhat futile - among its many causes were the financial flows which, in the 1970s, had helped to promote the development of the third world and to assist economic activity in the industrialized countries. The crux of the problem now was the size of the debt burden. Economic adjustment must feature largely in any solution. Debtor countries in particular needed basic structural adjustment, notably improvement of the infrastructure, to which IDA assistance could contribute. Similarly, the only way to keep markets open, in both developed and developing countries, was to maintain economic policies focussed on the need to adjust. There were real political obstacles to open market policies and the idea that more talking between trade and financial experts would in itself remove them was illusory. International institutions could help by stating the problem clearly and effectively. The GATT should seek to develop a strategy to this end in consultation with governments and the other institutions, but it should not involve itself in Fund missions or in the issue of conditionality, necessary though that concept was.

36. One member suggested that the GATT should consider initiating or endorsing a standstill on trade restrictions affecting the exports of developing countries, and the secretariat paper should be followed up by a more detailed study on the effects of protectionism on the payments situation of the indebted countries. The suggestion in the present paper that excessive controls on foreign transactions have worsened the position of developing countries seemed to him questionable, since a number of developing countries were in fact suffering the consequences of over-rapid liberalization. Furthermore, investment in developing countries had increased faster than elsewhere, from 19 per cent of GNP on average in 1960 to 25 per cent in the late 1970s. Was it not the case that unfavourable terms of borrowing, and the changing economic environment, rather than excessive borrowing in itself, were at the root of the current crisis? It was in any case clear that urgent action was necessary on the financial plane because private lending to developing countries would take a long time to return to its former level.

37. Another speaker argued that the connection between debt and protectionism, though real, should not be over-stressed: it was in fact impossible for a country like his own to pay off its debt by running a trade surplus, which would imply becoming a net exporter of capital. Debt repayments must be balanced by capital inflows. Nor should the institutional relationship between the Fund and the GATT be overstated. Improving national policies was the essential requirement and GATT's contribution should be to demonstrate how markets should and could be kept open.

38. Another speaker agreed that the secretariat paper overstated the possibility for developing countries to finance their debts through trade surpluses. The origin of their indebtedness should be more closely analysed. Though his own country had had a positive balance of trade in recent years, it had gradually lost access to different forms of development assistance and multilateral loans and had fallen back on the commercial banking system, which was not an adequate source of development finance. Very high inflation and "positive" interest rates attached to short term loans had compounded the problem and effectively drained the country's economy. The international financial system was now so disordered that a solution was hard to envisage. Certainly, it could not be done by a few countries or without concerted action and participation by all competent international organizations. He proposed that the Group of 18 might meet with similar groupings representing the IMF and the World Bank with a view to seeking solutions to the related problems of debt, interest rates and trade. The situation of his own country might for example be analysed at such a meeting.

39. Summarizing the discussion, the Chairman noted the general view that this subject should be discussed further and proposed that it be placed on the agenda of the next meeting. At that stage we should perhaps adopt a more concrete and action-oriented approach on the basis of some of the ideas expressed today. On the possibility of improving GATT procedures, he undertook to consult the Chairman of the Balance-of-Payments Committee on the suggestions made by members of the Group. He had found the comments of the Group on cooperation with the IMF very helpful. There was clear support for closer cooperation between the two secretariats. Different views had been expressed on the presence of GATT staff in Fund missions, but this was not in any case a live issue. Proposals for a joint meeting of the Group with similar groups of the Fund and the Bank and for involvement of private bankers would also be kept in mind. The proposal of a standstill on protective measures affecting developing countries would be analysed. He proposed that CG.18/W/74, together with the record of this discussion, should be circulated to all contracting parties. This was agreed. The secretariat would prepare a further background paper for discussion at the Group's next meeting in October.

Item 3 - Other Business

40. It was agreed that the date of the next meeting, in October, would be agreed in consultation between the Chairman and members.

NOTE FOR PARTICIPANTS
IN THE CONSULTATIVE GROUP OF EIGHTEEN

The attached confidential note, which has been prepared by the secretariat on its own responsibility, outlines the main points made in the course of the twenty-first meeting of the Consultative Group on 5-6 May 1983.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

CG.18/21
23 June 1983

Special Distribution

Consultative Group of Eighteen
Twenty-first Meeting
5-6 May 1983

NOTE ON THE TWENTY-FIRST MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-first meeting on 5-6 May 1983. The annotated provisional agenda was circulated in CG.18/W/73 and the list of participants in CG.18/INF/22.

2. The agenda was as follows:

1. Review of Developments in Trade Relations and Trade Policy since the GATT Ministerial Meeting
2. The Relationship between Trade Policy and the International Financial System
3. Other Business

Item 1 - Review of Developments in Trade Relations and Trade Policy since the GATT Ministerial Meeting

3. The Chairman said that his intention in proposing this subject had been to give the Group an opportunity to consider developments in trade and trade relations since the Ministerial Meeting, more particularly those developments which, in the view of the secretariat, gave grounds for concern. As a framework for discussion he proposed that the Group consider the implementation of the political commitment contained in paragraph 7(i) of the Ministerial Declaration, together with the trade measures taken by contracting parties since November; the closely related question of safeguards; and problems arising in the field of dispute settlement.

4. The Chairman continued that paragraph 7(i) of the Ministerial Declaration contained an unqualified commitment to refrain from taking or maintaining any measures inconsistent with GATT and must be regarded as the heart of the political undertaking adopted by Ministers. Such a commitment must be taken seriously and it therefore became necessary to ask how trade measures taken since November related to paragraph 7(i). If any such measures were not consistent with GATT, they would clearly be in breach of the political undertaking also. Furthermore, paragraph 7(i) contained a commitment to make determined efforts to avoid measures which would limit or distort trade; here it was proper to ask of any such measure, whether

or not it was consistent with GATT, if such determined efforts had in fact been made. Was it necessary to create a procedure which would ensure that these questions would be asked systematically, bearing in mind the existence of the commitment under the Framework Agreement to notify the contracting parties of the adoption of trade measures affecting the operation of the General Agreement?

5. This question applied directly to a number of trade measures taken since November. These fell into two broad categories. First, a number of developing countries had introduced wide-ranging controls on imports, reversing a previous trend towards liberalization. This had sometimes been done in response to balance-of-payments pressures, and sometimes in reaction to trade restrictions by other countries. Whatever their cause, these developments were very unfortunate, particularly in their effects on the countries adopting them. Secondly, some industrialized countries had taken measures to protect particular industries against foreign competition. Most of these measures had not been notified to GATT. It must be asked how these measures relate to GATT obligations in general and with paragraph 7(i) of the Ministerial Declaration in particular.

6. In the discussion which followed no member of the Group disputed that the commitment in paragraph 7(i) must be taken seriously or that action must be taken to monitor the extent to which any trade measures taken by contracting parties were consistent with it. However, different views were expressed on the question whether it would be necessary to establish some new or special mechanism or forum for this purpose, or whether it would be sufficient to make use of existing committees and procedures. One member said that his government could accept the creation of a new body, or the use of existing ones; in either case they would be willing to notify measures taken by them for examination in the GATT. Another member said that although in his view the creation of an entirely new mechanism was desirable, he feared that it would be impossible to achieve agreement on this and therefore suggested that the secretariat should propose a monitoring system which would make use of existing institutions. It was also pointed out that the essential need was to ensure that trade restrictive measures came onto the agenda of the GATT, by whatever means. Since November a number of actions of this kind had been taken but could not be discussed because they had not been notified by the governments responsible.

7. Other members took the view that it would be unnecessary to set up any special mechanism, since the existing obligation to notify (Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance) covered trade measures of all kinds and existing committees had the necessary authority to deal with them. One member pointed out that, where necessary and possible, the Ministerial Declaration had stipulated the procedural measures necessary for the implementation of decisions. In the case of paragraph 7(i) no such agreement had been reached. Furthermore, for reasons of national sovereignty it would not be proper for GATT to debate the formulation of national policies. On the latter point it was

suggested by another member that while legislative proposals could hardly be discussed in GATT, once legislation was enacted, and to the extent that it affected the trade interests of other contracting parties, such discussion ought to take place - if necessary at the request of third countries.

8. One member said that his government deplored any measures inconsistent with GATT or with the spirit of the Ministerial Declaration, but one had to bear in mind the reasons why some governments felt obliged to take such measures and others, however unwillingly, to concur in them. These reasons were often political, and they needed to be discussed in a forum such as the CG.18 which permitted frank exchanges. Defects in GATT mechanisms were not the essential problem. Another member, however, said that in his country there was a widespread perception that the GATT had failed to provide discipline and security and was becoming of marginal relevance. Major issues were increasingly being treated outside GATT among very restricted groups of countries, which weakened both the GATT itself and the attachment to it of smaller contracting parties. The secretariat should therefore monitor all measures taken outside the GATT.

9. Another member said that although few countries were satisfied with paragraph 7(i), for various reasons, it was a fundamental part of the Ministerial Declaration because the problems it sought to deal with were one of the main reasons for calling the Ministerial Meeting. Of the three elements in the paragraph, the unqualified commitment to refrain from measures inconsistent with GATT merely confirmed an existing obligation and in most cases could be dealt with through the normal dispute settlement machinery of Article XXIII. A problem might arise over a measure affecting the general interest, on which no one contracting party felt able to make a bilateral complaint. As for the "determined efforts" clauses of the paragraph, he was not sure that Article XXIII could be invoked. His own preference would be to ensure the widest possible examination of any measures taken, first at a technical and secondly at a political level. The best forum for this would be the Council meeting in special session - if necessary twice rather than once a year. He shared the concern expressed by another member that the existence of the Codes had brought about a certain "compartmentalization" of the GATT, with non-signatories of the Codes receiving inadequate information and, in general, less than adequate consideration. In this respect also small countries were losing their ability to influence events and the unity of the system was being lost.

10. The Chairman asked if the representative of any country which, since November, had taken or been involved in restrictive measures and had not formally notified the GATT would be willing to explain the relationship between such measures and paragraph 7(i). In reply, one member said that some economies had been able to adjust much less quickly than others and that this had caused severe social and political problems. Despite its concern for the credibility of the GATT system his country had in certain cases felt obliged to take measures - which they did not regard as

legitimate or desirable in themselves - in the hope that these would enable their trading partners to overcome these adjustment problems. Protectionist pressures of this kind would persist if the adjustment capacity of national economies were not improved. Another member said that some measures in the "grey zone" had averted damage to GATT by defusing dangerous conflicts. The conflicts arose from the economic crisis and were likely to be particularly acute where countries suffering high unemployment had practised particularly liberal and open trade policies. It would certainly be right to consider all such measures, but the commitments in paragraph 7(i) must be looked at in conjunction with 7(vi) and 7(vii). It must also be remembered that actions in the grey zone, by definition, could not necessarily be qualified as illegal.

11. The Chairman said that the secretariat would be willing to monitor all trade measures, as several members had suggested, but could not do so effectively on the basis of information gleaned from newspapers. If contracting parties wanted this job done, they must put the secretariat in a position to do it by providing all necessary information. Several members agreed that the present lack of information was intolerable, particularly given the existing obligation to notify, and it was suggested that when the secretariat heard of any un-notified trade measures it should take the initiative of requesting full information of the governments concerned. This would not release governments from their own obligations to notify. It was also pointed out that the notification of trade measures, or the publication of information about them by the secretariat, would in no way imply their consistency with GATT rules: there was no dissent from this.

12. Summing up this part of the discussion, the Chairman said he believed that the proposal to consider the implementation of paragraph 7(i) in a special Council meeting had the support of the Group. He also took it that members of the Group would recommend to their authorities that the obligation to notify trade measures should be strictly observed. He again underlined that notification did not imply legality; the point was to give the Council an opportunity to check the consistency of measures taken with GATT obligations and the commitments accepted in November.

13. Turning to the question of safeguards the Chairman informed the Group that in informal consultations under the chairmanship of Ambassador Ewerlöf a good deal of light had been thrown on the nature and motivation of "grey area" measures, thanks to the cooperative attitude of those participating in the discussions. This should enable the secretariat to complete a fuller picture of these measures and of their relationship with all relevant GATT articles - not merely Article XIX. An interim report on the consultations would be made before August and it might at some stage be necessary to consult the CG.18 on next steps.

14. Several members expressed concern at the slow rate of progress, which in their view would make it difficult to put a substantive report to the November Session. One member argued that if in fact there was serious

interest in negotiating a new agreement on safeguards - and he was not sure that that was the case - negotiation would have to begin in September. Several members agreed that the question must be given high priority, so that at the November Session it would at least be clear that a serious attempt to negotiate had been made.

15. It was pointed out that the present exercise was new and that it centred on the reasons why, in specific cases, contracting parties have found it preferable to act outside the GATT rather than to apply Article XIX or other GATT articles. It was interesting to hear it claimed that such action was necessary to avoid a worse alternative - which presumably meant use of Article XIX. Did this mean merely that Article XIX requirements could not be fulfilled by the countries in question, because they lacked the means of compensation? The point was also made that work should not concentrate only on clarifying or supplementing the rules for application of Article XIX; many other types of safeguard measure were being implemented and they must all be considered. The Chairman said that after a slow start good progress was now being made in looking at concrete cases rather than at theoretical concepts and that the Chairman of the Council had the time schedule firmly in mind.

16. The Chairman said that some of the more disturbing developments since November had been in the area of dispute settlement. First, difficulty in finding chairmen and members of panels was greatly increased by the very marked tendency of countries involved in disputes to consider potential panel members not in terms of their personal qualities but in terms of their national allegiance. Secondly, in some recent cases panel members had been put under wholly unacceptable pressures in what could only be regarded as attempts by parties to disputes to influence their position on the cases they were considering. A system based on members of national delegations could survive only if the independence of those persons was respected. Otherwise it might be unavoidable to establish a standing body of panelists who would not be members of any national administration and who would, if necessary, be paid for their services as panel members. Thirdly, there was a problem of the quality of panel reports. Ideally, the reports of panels should be so well argued and clear that they commanded the acceptance at least of all disinterested persons. This had not been so in some recent cases and one of many possible reasons might be that panels were asked questions which could really be solved only through negotiations. There was also a problem of confidentiality. Confidentiality was essential during the period when the conclusions of a panel were released only to the parties to the dispute in order to give them the best chance of finding a mutually-acceptable solution. However, in some recent cases conclusions had been very quickly leaked to the press and that seemed to be a sure way of destroying any chance of reaching a compromise solution.

17. One member said that his country would normally be in a position to settle a dispute bilaterally without informing anybody. This would, however, be very undesirable; the dispute settlement mechanisms should be

used. Indeed, they became more and more crucial, for his country and for others, as an instrument for fending off protectionist pressures. As to the nomination of panelists, there was a gentlemen's agreement in the Tokyo Round that parties would not oppose nominations except for compelling reasons and this agreement should be re-emphasized. It was regrettable that despite the shortage of eligible panelists, officials from the United States and the EEC were practically excluded from nominations because those countries were considered as having a real or potential interest in almost all disputes. The idea of having professional panelists might be worth considering if it would rationalize the system. Referring to the quality of panel reports, he quoted a recent case in which the Panel had been unable to reach any decision on the issues with which it was confronted. If necessary, the terms of reference of panels should stipulate that a decision must be reached. In his view the dispute settlement system was not being overloaded. Recent leaks of panels' conclusions to the press were regrettable but it was hardly realistic to expect that confidentiality would be observed during a thirty-day period and therefore time-periods for mutually-acceptable solutions should be shorter.

18. One member said that improvement in the functioning of the dispute settlement mechanism was closely related to improvement in the functioning of the GATT mechanism in general. Council decisions and adopted panel reports would not be respected if the GATT provisions themselves were not respected. As to the nomination of panelists, he agreed with the previous speaker that no country should be a priori excluded because of its potential interests. Panelists should be nominated mainly from Geneva-based delegations, although in some cases recourse to other outside sources should not be excluded. Some recent panel reports had not been helpful to the Council in its duty of making a ruling or a recommendation. Whether or not the Council adopted a report was not the essential question: but the Council must assume its responsibility and make a recommendation or ruling of some kind. It was the function of a panel to advise the Council and of the Council to make a decision.

19. All other speakers who addressed these issues shared the opinion that the improvement of the dispute settlement mechanism was contingent upon improvement of the functioning of the GATT system itself. They also strongly emphasized the importance of protecting the independence of panelists and the confidentiality of panel proceedings. The possibility of having recourse to professional panelists was not excluded as a future option. However, for the time being, the preference clearly was to improve the availability of the members of national delegations. In this connection it was generally recognized that no country, except those directly involved in a dispute, should be a priori excluded.

20. There was general agreement that the responsibility of the Council to act upon the reports of panels was of fundamental importance. It was also suggested that at the earlier stages of a dispute the Council should assess whether a case was justiciable, and should clearly indicate which rules were applicable. It was also the Council's responsibility to ensure clear

terms of reference. It should if necessary establish rules to prevent procrastination and procedural delays - and time-limits for its own consideration of and action upon panel reports. Present procedures for selecting panel members were criticised by one member as inefficient and undemocratic: both panel membership and terms of reference should be agreed by the Council in open session. Likewise, any arrangements agreed as a result of panel proceedings should be discussed in the Council, since they might affect the interests of other contracting parties. The question was also raised whether the Council had any responsibilities in relation to reports emanating from panels set up under the Codes. In response to this it was argued that such reports could not be submitted to the Council, because several Codes imposed more obligations than the General Agreement, and rulings on these obligations should be made by those parties who had accepted them.

21. The point was also made that cases submitted to panels must be complete and properly documented. Too often complaints were made for political reasons and the substance of the matter later neglected. One member considered that panels could not be seen exclusively as judicial or as negotiating entities; they necessarily combined both functions. There were, however, noticeable differences of emphasis among members on this point. One member, while agreeing that on some especially delicate issues it might be appropriate for panels to indicate areas for possible negotiation, said that this should remain exceptional: panels must take their responsibilities and not send difficulties routinely back to the parties for negotiation. He and others emphasised that dispute settlement should not be seen as a political exercise: it must be based on the rights and obligations of contracting parties under the General Agreement, not on their relative strength. Paying too much attention to the political aspects of the case would reduce the likelihood of clear findings, and while the legal considerations might not always be overriding, a panel's assessment of the legal position should always be as clear as possible.

22. One member saw a danger in encouraging the view that panels had a monopoly of wisdom or were a sort of high court. Although GATT rules should be interpreted and applied, the panel's report should be seen as advice to the Council or the relevant Committee, which should then formulate their own decisions and recommendations. The quality of reports was a major concern, and in this connection the standard of advice given to panels by the secretariat must be carefully considered. Substantial discussion before adoption of a report was essential, because some difficulties were of a political nature and could not be solved through a panel's advice. The moment might then come when the Council should try to give guidance which would involve a compromise on both sides. In other words, a political solution should be sought; the Council should eschew a purely judicial approach and try to see other points of view as well.

23. The Chairman said there was a danger that political solutions would be a disguised form of bilateralism and would, in practice, fall within the

scope of the so-called "grey area". This might not be desirable from the GATT point of view. Referring to comments by a number speakers that the GATT secretariat should play a more prominent rôle in ensuring better quality of panel reports, he said that although the secretariat could assume increased responsibility in that respect, it was up to the panel to decide to what extent it required or would accept the secretariat's help.

24. One speaker suggested that some of the committees, and the panels set up by them, were confronted with issues which they cannot resolve because the relevant provisions of the agreements they were trying to interpret were not sufficiently clear. He wondered if the CG.18 should request the secretariat to compile a list of such unclear provisions, which might subsequently be discussed and possibly clarified in a special working party. It was also pointed out that some progress had been made at the Ministerial Meeting in improving the dispute settlement system, notably in paragraph (x) of the agreement relating to dispute settlement procedures.

25. The Chairman said that it seemed agreed by all members that members of delegations approached to serve on panels should do their best to be available and parties to disputes should not oppose nominations except for very compelling reasons. The secretariat would also be ready to inform interested delegations about developments in any consultations regarding panel membership or terms of reference. The view that greater transparency was needed in the composition of panels and their terms of reference was noted, and would be made known to the Chairman of the Council. There was also a general opinion that the Council should assume its responsibilities in handling panel reports and deciding how a dispute should be settled. That did not however absolve panels from their duties, which, in the first place, were to help the Council by submitting a good report. Another conclusion he could draw from the discussion was that the secretariat should play a more active rôle in selecting panelists and providing them with all the necessary assistance in order to ensure good reports. The points made by the Group would be of real assistance in our efforts to improve the dispute settlement mechanism. The Group might wish to revert to the problem in the future to assess the progress made.

Item 2 - The Relationship between Trade Policy and the International Financial System

26. The Group had before it a paper on this subject by the GATT secretariat (CG.18/W/74) the first part of which dealt with international financial systems and their connection with international trade, and the second part with cooperation between the GATT and the IMF.

27. Introducing the discussion, the Chairman said that the dependence of the financial system on the maintenance of an open trading system, which the GATT had been preaching for several years, was now generally recognized and widely discussed. The GATT secretariat was increasingly involved in

discussions with governments and other institutions on the trade/finance link and it would be very helpful for this purpose to have the views and advice of the Group. On the subject of cooperation between the GATT and the IMF, the Chairman informed the Group that the Fund had undertaken to finish its contribution to the study on exchange rate fluctuations before the end of this year and that the GATT secretariat would be invited to comment on this element of the study before its submission to the Executive Directors of the Fund. More generally, relations between the secretariats of the Fund and the GATT had been extended and would be further reinforced, since both organizations felt the need of additional information on each other's activities and researches in the trade policy field, notably in connection with the Fund's consultations with individual countries.

28. In the discussion which followed there was complete agreement on the importance of the links between trade policy and the health of the financial system. The secretariat's paper was found helpful and illuminating and with a few qualifications its analysis of the origins and scope of the problem of indebtedness, and of the importance of open markets as a contribution to its correction, was supported. Other major themes touched upon in the discussion were the scope for increased cooperation between the GATT, the Fund and the World Bank, and the forms which such cooperation might take, the possibility of improving the procedures of the GATT Balance-of-Payments Committee and extending the ambit of its concerns, and the difficulty of ensuring symmetry of treatment between indebted countries, or those in balance-of-payments difficulties, and creditor countries.

29. The first speaker emphasized the critical importance of greater convergence in national trade and financial policies, for the recovery and health of the world economy. This would be a major concern at the forthcoming meeting of trade and finance ministers in Paris and at the Williamsburg Summit meeting. It was hoped that future meetings of trade and finance ministers might include developing countries, whose rôle in the world recovery would be of crucial importance. It would entail reform and adjustment in their economies: but the success of these efforts would depend on the existence of open markets for their exports, and on the availability of finance. In the GATT the trade/money link found expression in the Balance-of-Payments Committee, the adequacy of whose procedures should perhaps be reviewed. Outside that Committee, there was inadequate interaction between the GATT and the Fund (and virtually none with the World Bank.) These contacts should be extended, firstly by increased exchanges of information with the Fund. The GATT secretariat could, for example, provide information and advice to the Fund for the purposes of its Article 4 consultations and even for loan negotiations. Members of the secretariat might also participate in Fund country missions in order to state the GATT view on the trade policies under review. It was important to correct a widespread miscomprehension that IMF stabilization programmes commonly restrict imports: in fact, the Fund actively promoted

liberalization and the policies it advised normally permitted higher import levels than would otherwise have been achieved. The CG.18 and the contracting parties generally should consider how the benefits of trade liberalization that would flow from IMF consultations could be disseminated through the system.

30. Another member expressed the hope that from recognition of the link between trade and financial problems the Group and the GATT could move towards identifying possible solutions. However, in both areas there were severe technical difficulties, and it would be wrong for the contracting parties to try to become involved in the technicalities of finance. The discussion should be directed towards helping the secretariat make the case for the open trading system in its contacts with the Fund and the Bank, and more widely. In the GATT Balance-of-Payments Committee itself the trade/money link was neglected to the extent that the Committee looked at only one side of the equation - the justification and the effects of measures taken for balance-of-payments reasons - but never at the means by which a consulting country's balance-of-payments position might be so improved as to make trade restrictions unnecessary. The Balance-of-Payments Committee should relate more directly with the other organs of GATT. The secretariat paper should be expanded for the next discussion and should consider more fully the reasons for the erosion of the buying power of many developing countries, which was at the root of their debt problems and of the overall decline in world trade. On cooperation with the Fund, he warned that involvement of the GATT in Fund conditionality exercises would be counterproductive. A later speaker, however, suggested that the presence of GATT representatives in Fund missions might inject greater realism into Fund programmes which too often ignored social considerations and thereby provoked unrest.

31. Several other speakers agreed that in the examinations carried out by the Balance-of-Payments Committee inadequate consideration was given to the external factors contributing to the balance-of-payments problem of the consulting countries. One member said that his country welcomed the advice received from the Balance-of-Payments Committee and elsewhere but in fact had limited control over its own destiny: so many of its exports - in agriculture, steel, textiles and so on - were subject to quota restrictions so that devaluation, for example, could have no effect in stimulating trade.

32. Another speaker said that the main causes of the high indebtedness of certain developing countries were recession, protectionism and inflation in the industrial world rather than faulty policies in the indebted countries. His own country, because of the imperative need to develop the economy, was obliged to import all that it could afford, but could not continue to import, or finance its debts, if its exports were restricted. At present some 50 per cent of its exports of manufactured products to the US, for example, were under restriction. It was true that the Fund advised liberal rather than restrictive import policies, but unless it could bring equal pressure to bear in favour of open markets in the developed world, it was

hard to see how increased imports could be reconciled with the burden of debt servicing. Because of the asymmetry flowing from the Fund's limited influence over creditor countries, he found the idea of GATT participation in Fund missions alarming. By increasing pressure on developing countries for liberalization it would increase the existing imbalance. He suggested that if the secretariat were to increase its contacts with the Fund and the World Bank, which he thought desirable, the private banking sector should also be brought in, in view of its important rôle in development financing.

33. The Chairman commented that under Article 4 of its Articles of Agreement the IMF sent missions to industrialized countries, which involved a serious examination of trade policies. It was in this context that the Fund had sought information from the GATT secretariat. The proposal that secretariat members should participate in Fund missions had never in fact been put to the GATT because the Executive Board of the Fund had not approved it.

34. A later speaker drew attention to the overwhelming influence of exchange rate fluctuations and high interest rates on the problem of debt. For example, it was calculated that debt service in the current year would cost Latin American countries some 63 per cent of their export earnings: but a 2 per cent drop in interest rates would be equivalent to an \$8 billion saving in debt service which was in turn equivalent to a 10 per cent rise in the exports of these countries to the seven industrialized countries represented at the Williamsburg Summit. Trade liberalization alone should not therefore be seen as a panacea, though it was certainly essential that markets be kept open. The effects of world economic recovery, if it developed as hoped, would vastly outweigh any conceivable change in trade policies, because the root of the current recession was lack of demand. In the EEC, for example, textile quotas were not being filled.

35. The damaging effects of high interest rates were emphasized by several other speakers. One speaker recalled that it had been suggested that if not brought under control they would be the cause of a major recession. In addition to this, durable recovery would require reasonable convergence of macroeconomic policies, since otherwise divergent growth rates might provoke protectionism. Another destabilizing factor was the exchange rates of a number of major currencies, which bore little relation to the competitive strength of the economies in question. Nor should it be forgotten that energy prices, which had been very disruptive indeed, could become so again. An important contribution to solution of the debt problem would be to ensure adequate financing of the relevant international institutions, including the IDA. (The recent increase in Fund quotas was a signal case of failure on the part of governments to understand the relationships which were the subject of today's discussion.) On the subject of "conditionality", he pointed out that unless the adjustment programmes negotiated by the Fund carried conviction with the private banks, the latter would be disinclined to lend to the countries in question: less "harsh" or realistic programmes would therefore lead to a

fall in private sector lending. In the trade field, the main contribution to recovery would be the elimination of restrictions, subsidies and other causes of rigidity in national economies. Another speaker suggested that to seek to allocate blame for the debt crisis was somewhat futile - among its many causes were the financial flows which, in the 1970s, had helped to promote the development of the third world and to assist economic activity in the industrialized countries. The crux of the problem now was the size of the debt burden. Economic adjustment must feature largely in any solution. Debtor countries in particular needed basic structural adjustment, notably improvement of the infrastructure, to which IDA assistance could contribute. Similarly, the only way to keep markets open, in both developed and developing countries, was to maintain economic policies focussed on the need to adjust. There were real political obstacles to open market policies and the idea that more talking between trade and financial experts would in itself remove them was illusory. International institutions could help by stating the problem clearly and effectively. The GATT should seek to develop a strategy to this end in consultation with governments and the other institutions, but it should not involve itself in Fund missions or in the issue of conditionality, necessary though that concept was.

36. One member suggested that the GATT should consider initiating or endorsing a standstill on trade restrictions affecting the exports of developing countries, and the secretariat paper should be followed up by a more detailed study on the effects of protectionism on the payments situation of the indebted countries. The suggestion in the present paper that excessive controls on foreign transactions have worsened the position of developing countries seemed to him questionable, since a number of developing countries were in fact suffering the consequences of over-rapid liberalization. Furthermore, investment in developing countries had increased faster than elsewhere, from 19 per cent of GNP on average in 1960 to 25 per cent in the late 1970s. Was it not the case that unfavourable terms of borrowing, and the changing economic environment, rather than excessive borrowing in itself, were at the root of the current crisis? It was in any case clear that urgent action was necessary on the financial plane because private lending to developing countries would take a long time to return to its former level.

37. Another speaker argued that the connection between debt and protectionism, though real, should not be over-stressed: it was in fact impossible for a country like his own to pay off its debt by running a trade surplus, which would imply becoming a net exporter of capital. Debt repayments must be balanced by capital inflows. Nor should the institutional relationship between the Fund and the GATT be overstated. Improving national policies was the essential requirement and GATT's contribution should be to demonstrate how markets should and could be kept open.

38. Another speaker agreed that the secretariat paper overstated the possibility for developing countries to finance their debts through trade surpluses. The origin of their indebtedness should be more closely analysed. Though his own country had had a positive balance of trade in recent years, it had gradually lost access to different forms of development assistance and multilateral loans and had fallen back on the commercial banking system, which was not an adequate source of development finance. Very high inflation and "positive" interest rates attached to short term loans had compounded the problem and effectively drained the country's economy. The international financial system was now so disordered that a solution was hard to envisage. Certainly, it could not be done by a few countries or without concerted action and participation by all competent international organizations. He proposed that the Group of 18 might meet with similar groupings representing the IMF and the World Bank with a view to seeking solutions to the related problems of debt, interest rates and trade. The situation of his own country might for example be analysed at such a meeting.

39. Summarizing the discussion, the Chairman noted the general view that this subject should be discussed further and proposed that it be placed on the agenda of the next meeting. At that stage we should perhaps adopt a more concrete and action-oriented approach on the basis of some of the ideas expressed today. On the possibility of improving GATT procedures, he undertook to consult the Chairman of the Balance-of-Payments Committee on the suggestions made by members of the Group. He had found the comments of the Group on cooperation with the IMF very helpful. There was clear support for closer cooperation between the two secretariats. Different views had been expressed on the presence of GATT staff in Fund missions, but this was not in any case a live issue. Proposals for a joint meeting of the Group with similar groups of the Fund and the Bank and for involvement of private bankers would also be kept in mind. The proposal of a standstill on protective measures affecting developing countries would be analysed. He proposed that CG.18/W/74, together with the record of this discussion, should be circulated to all contracting parties. This was agreed. The secretariat would prepare a further background paper for discussion at the Group's next meeting in October.

Item 3 - Other Business

40. It was agreed that the date of the next meeting, in October, would be agreed in consultation between the Chairman and members.