

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SUMMARY RECORD OF THE SECOND MEETING

Held in the Geneva Conference Centre,
on Tuesday, 24 November 1981, at 10 a.m.

Chairman: Mr. GABRIEL O. MARTÍNEZ (Argentina)

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1. Report of the Council, continued (L/5245)

Point 7(e) - Tax legislation

- (i) United States tax legislation (DISC)
- (ii) Income tax practices maintained by France
- (iii) Income tax practices maintained by Belgium
- (iv) Income tax practices maintained by the Netherlands

Mr. FEIJ (Netherlands) noted that the Report of the Council recorded that at the meeting of the Council on 3 November 1981 the delegations principally concerned had presented to the Council the text of a proposed understanding, and that several other delegations had sought clarification on certain aspects of that text. He said that since then, it had been possible to reach agreement with all but one of those other delegations on the text.

He then drew the CONTRACTING PARTIES' attention to a number of procedural features of this case as follows:

- (1) The complaint about the Netherlands tax practices had not been based on any specific cases that had occurred in practice but had been introduced as part of the defense in a case concerning the tax practices of another contracting party.
- (2) The Panel Report had been circulated without prior submission of its conclusions to the parties to the dispute.
- (3) Although the conclusions had cast grave doubts on the GATT conformity of the territorial system of taxation, which was practised by a large number of contracting parties and had been subject to reservations from the outset, they had been published in the Twenty-Third Supplement to the BISD.

(4) In spite of the extensive written and oral representations made to the Council by his and other delegations concerning the adverse implications of the Panel's conclusions, one of the Panel members had published an article in a Tax Journal without mentioning any of these misgivings.

(5) More recently premature public announcements regarding the possible settlement of this and related disputes had given rise to confused and erroneous press reports, which continued to question the GATT conformity and underlying principles of the Netherlands tax legislation.

He added that, although some of these features might not be repeated since the CONTRACTING PARTIES' adoption of the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210), the existence of this Understanding had not permitted a solution of these problems. Against this background and in the event that the CONTRACTING PARTIES were unable to deal with this question during the present session, he requested that the CONTRACTING PARTIES invite the secretariat to incorporate a note in the next Supplement to the BISD stating that the Panel Report on Netherlands Tax Practices (BISD 23S/137) had not yet been adopted by the end of the thirty-seventh session of the CONTRACTING PARTIES.

Mr. FREYCHE (France) said that the French case was identical to that of the Netherlands. His delegation was equally concerned and fully associated itself with the statement made by the representative of the Netherlands.

Mr. ONKELINX (Belgium) expressed regret that the substantial efforts made to settle these matters had not yet been successful. He said that the discussions seemed to be close to a resolution and expressed the hope that a definitive result could be achieved during the next Council meeting.

Mr. LUYTEN (European Communities) recalled that ten years earlier, in November 1971, the European Communities had made their first statement on DISC at the session of the CONTRACTING PARTIES. A five-year period had then elapsed prior to the distribution of the Panel Reports in November 1976, and a second five-year period had elapsed prior to the present session. He believed that the matter could be concluded soon and expressed the hope that another five-year period would not be opened because one contracting party delayed a solution.

Mr. SMITH (United States) associated himself with the comments of the representative of Belgium. He understood that the reference by the representative of the European Communities to one contracting party had not been to his delegation.

Mr. DUNKEL (Director-General), in replying to the request made by the representative of the Netherlands to incorporate a note in the next supplement to the BISD, expressed his hope that the matter could be settled in the next few days and that it would be possible to find a different solution. For the time being, he had taken note of the Netherlands' suggestion, which would be applied subject to developments in the near future.

Point 9(b) - Indonesia - Establishment of a new Schedule XXI

The CHAIRMAN drew attention to the recommendation of the Council that the draft decision reproduced in Annex II of the Report of the Council be adopted by the CONTRACTING PARTIES.

Mr. DARSA (Indonesia) informed the CONTRACTING PARTIES that Indonesia had concluded an agreement regarding Schedule XXI with the United States in June 1981, had signed an agreement with Australia on 24 November 1981 and had initialled an agreement with the EEC on 17 November 1981. He said that his delegation had asked for an extension of the waiver until 1982 in order to conclude negotiations with a number of other contracting parties.

The decision (L/5255) was adopted by fifty-nine votes in favour and none against.

Point 9(c) - Pakistan - Renegotiation of Schedule

The CHAIRMAN drew attention to the recommendation of the Council that the draft decision reproduced in Annex III of the Report of the Council be adopted by the CONTRACTING PARTIES.

The decision (L/5256) was adopted by fifty-nine votes in favour and one against.

Point 9(d) - Uruguay - Import surcharges

The CHAIRMAN drew attention to the recommendation of the Council that the draft decision reproduced in Annex IV of the Report of the Council be adopted by the CONTRACTING PARTIES.

The decision (L/5257) was adopted by sixty-one votes in favour and none against.

Point 10(b) - Turkey - Stamp duty

The CHAIRMAN drew attention to the recommendation of the Council that the draft decision reproduced in Annex V of the Report of the Council be adopted by the CONTRACTING PARTIES.

The decision (L/5258) was adopted by fifty-nine votes in favour and one against.

Point 11 - Accession of Tunisia

The CHAIRMAN drew attention to the communication from Tunisia contained in document L/5221.

Mr. MEBAZAA (Tunisia) said that, as notified in document L/5221, the Tunisian Government had decided to engage in the relevant procedures with a view to Tunisia's full accession to GATT on terms to be defined with the CONTRACTING PARTIES, under Article XXXIII of the General Agreement. Tunisia was thereby reaffirming its attachment to world trade liberalization and its readiness to contribute to attaining that objective. Tunisia considered itself entitled, as a developing country, to have recourse to the Decision of 28 November 1979 on the enabling clause (BISD 26S/203) and likewise to the provisions of Part IV and Article XXVIII bis of the General Agreement.

Until such time as the necessary arrangements could be made for Tunisia's full accession to the General Agreement, his delegation was requesting an extension of the Declaration of 12 November 1959 on the Provisional Accession of Tunisia, which was due to expire on 31 December 1981.

The CONTRACTING PARTIES agreed to establish a working party with the following terms of reference and composition:

Terms of Reference

"To examine the application of the Government of Tunisia to accede to the General Agreement under Article XXXIII and to submit to the Council recommendations which may include a draft protocol of accession."

Composition

Membership would be open to all contracting parties indicating their wish to serve on the working party.

Chairman

The Chairman of the Council was authorized to designate the chairman of the working party in consultation with the delegation of Tunisia and other interested delegations.

The CHAIRMAN then drew attention to the draft of a Procès-Verbal Extending the Declaration on the Provisional Accession of Tunisia, reproduced in document W.37/2.

The CONTRACTING PARTIES approved the text of the Thirteenth Procès-Verbal Extending the Declaration on the Provisional Accession of Tunisia (L/5260).

The CHAIRMAN said that the Procès-Verbal was open for signature by all parties to the Declaration, which had authority to do so.

The CHAIRMAN then drew attention to the text of a Decision further extending the invitation to Tunisia to participate in the work of the CONTRACTING PARTIES, reproduced in document W.37/3.

The CONTRACTING PARTIES approved the text and adopted the Decision (L/5261).

Point 14 - Trade in textiles

Mr. DAS (India) referred to the current efforts to work out the future of the Arrangement Regarding International Trade in Textiles. He said that the expectation had been that this special derogation of GATT rules and principles would be short-lived and temporary, but that unfortunately it had been taken as an umbrella of continuing protection. In the hope that this protection would continue, the industry in the developed countries did not feel it imperative to move towards a phase when this protection would not be needed. He stressed that the contracting parties should view this development with great concern. In his view, there existed two options: either to succumb to such pressures and, thereby, dismantle the GATT system, or to be firm and bold and eliminate the special protective umbrella in the textile sector in the overall interest of fostering respect for general international trade rules.

Mr. JAYASEKERA (Sri Lanka) shared the concern expressed by the representative of India. He said what was meant to be a temporary departure from the provisions of the GATT had over the past twenty years been converted from a short-term into a long-term arrangement and from a single-fibre into a multi-fibre arrangement. It appeared to him that the Arrangement was heading towards perpetual restrictions on the exports of textiles and clothing to developing countries.

Mr. JARAMILLO (Colombia) and Mr. BAJWA (Pakistan) supported the statements made by the representatives of India and Sri Lanka.

Point 17 - Training activities

Mr. ZAFERA (Madagascar) expressed his delegation's appreciation to the GATT secretariat for the activities carried out in the field of technical assistance to the developing countries in general and for the training activities in particular. He hoped that the GATT would be able to overcome the difficulties mentioned in the Report of the Council and to strengthen this particular type of activity.

Mr. JAYASEKERA (Sri Lanka) expressed concern in respect of the limited number of participants in the training courses, noting that over the preceding ten years the number of participants had remained at twenty per course. While appreciating the quality of the courses, he asked that strenuous efforts be made to increase the number of participants.

Mr. JARAMILLO (Colombia) said that the training activities of the GATT had been very important for Colombia, but he regretted that regular courses were only held in English and French. Since many government officials did not speak these languages they were denied participation in the courses. He expressed appreciation to Switzerland for having provided finance for a special course in Spanish in 1982; his delegation believed, however, that this should be done on a continuous basis. He asked the CONTRACTING PARTIES to consider ways and means so that a regular course in Spanish could be offered beginning in the second half of 1983.

Mr. GRONWALDT RAMASSO (Uruguay) also expressed appreciation to Switzerland for having provided finance for a Spanish-speaking course and he supported the proposals made by the representative of Colombia.

Mr. ARCAYA (Organization of American States), speaking as an observer, said that the Organization of American States had participated in a meeting with the Director-General with a view to collaborating in a Spanish-speaking course, and repeated the offer made by his secretariat in this respect.

Mr. DUNKEL (Director-General) said that he was aware of the limitations concerning the possibility of extending the training courses. He expressed his appreciation to those governments which had helped so far to enlarge the geographical zone covered by these courses. He emphasized, however, that enlargement of the courses was not only a financial problem, as there existed also a problem of expertise, if the high quality of the courses was to be maintained. Lectures should be given by present or former GATT officials since it was not possible to use consultants for that purpose. He said that the secretariat would take note of the suggestions made and would examine how the number of participants could be increased. Contracting parties would be kept up to date so that in the near future the CONTRACTING PARTIES could decide on the financial support for an increased capacity of the training courses.

The CHAIRMAN expressed appreciation to the Organization of American States for its offer of collaborating in Spanish-speaking training courses.

Point 18 - International Trade Centre - Joint Advisory Group

Mr. ZAFERA (Madagascar) expressed his Government's appreciation to the International Trade Centre for its activities in the interest of developing countries, and to the donor countries which had given funds to the Special Fund. He appealed to other governments to help the Centre finance its activities.

Point 19 - Administrative and financial questions - Committee on Budget, Finance and Administration

The CONTRACTING PARTIES adopted the Report of the Committee on Budget, Finance and Administration (L/5196), including the recommendations contained therein and the Resolution on the Expenditure of the CONTRACTING PARTIES in 1982, and the ways and means to meet such expenditure.

The CONTRACTING PARTIES adopted the Report of the Council (L/5245) and took note of the statements made by representatives.

2. Consultative Group of Eighteen

Mr. DUNKEL (Director-General) said that before each meeting of the CONTRACTING PARTIES the secretariat undertook consultations with delegations concerning the composition of the Consultative Group of Eighteen for the ensuing period. He proposed the following composition of the Group of Eighteen for 1982:

Argentina, Australia, Brazil, Canada, European Economic Community, Egypt, Finland, India, Japan, Nigeria, Pakistan, Peru, Philippines, Poland, Switzerland, Turkey, United States and Zaire.

Mr. CARVAJAL (Chile) said that there should be a balanced representation in the Group on a rotational basis, and that for three years his delegation, as well as other Latin American delegations, had made known their interest in membership. He suggested that certain modifications in the Group's composition be made in an appropriate and periodic manner, and asked that the membership of the Group, as far as the Latin American countries were concerned, be left pending until the consultations within that group had been finalized.

Mr. JARAMILLO (Colombia) recalled the terms of reference for the Consultative Group of Eighteen, adopted on 2 November 1979, and said that the basic principle of rotation had not been applied. In view of the importance of the subjects being dealt with in this Group, his delegation was concerned that the Group could become an exclusive forum. In order to avoid that such a situation might arise, he suggested that the membership of the Group be extended from eighteen to thirty.

Mr. GRÜN WALDT-RAMASSO (Uruguay) said that his delegation fully supported the statements made by the representatives of Chile and Colombia and the suggestion made by Chile to leave open the appointment of the Latin American members of the Consultative Group of Eighteen pending a meeting of the Latin American group later in the day. He understood that contracting parties should be able to make statements in the Consultative Group when it dealt with subjects of particular interest to them, such as agriculture in the case of Uruguay. He also asked for a wider distribution of documents of the Consultative Group without non-members having specifically to request them.

Mr. JAYASEKERA (Sri Lanka) associated his delegation with the remarks made by the representatives of Chile, Colombia and Uruguay as far as rotation of membership in the Consultative Group of Eighteen was concerned.

The CHAIRMAN asked the delegations which had requested that the membership of the Group, as far as the Latin American countries were concerned, be left open, to accelerate their contacts so that the CONTRACTING PARTIES could take a decision on this issue.

Concerning the participation of contracting parties in the discussions of the Consultative Group, he referred to its terms of reference and pointed out that if a problem of special interest for a given contracting party were raised, that contracting party could participate in the discussions and present its point of view. He affirmed that this had been the case when agriculture had been taken up by the Group, adjustments having then been made for a wider participation.

The CONTRACTING PARTIES took note of the statements and agreed to revert to the question of the membership of the Consultative Group of Eighteen at their afternoon meeting.

3. Activities of GATT

The CHAIRMAN said that under this item contracting parties could make general statements in which they could review major developments since the last session. The basic documents were the Report of the Committee on Trade and Development (L/5253) and the Reports relating to the Agreements and Arrangements resulting from the Multilateral Trade Negotiations.¹

¹ Committee on Technical Barriers to Trade (L/5218), Committee on Government Procurement (L/5209), Committee on Subsidies and Countervailing Measures (L/5231), International Meat Council (L/5241), International Dairy Products Council (L/5226), Committee on Customs Valuation (L/5240), Committee on Import Licensing (L/5248), Committee on Trade in Civil Aircraft (L/5225), and Committee on Anti-Dumping Practices (L/5229).

Furthermore, contracting parties might wish to refer to the proposal that the next session of the CONTRACTING PARTIES be held at ministerial level.

Mr. EL GOWHARI (Egypt) pointed to the seriousness of the present international economic situation. The main economic ills - inflation, exchange rate problems, unemployment, protectionism and lack of adequate structural adjustment - were aggravating the critical conditions that the developing countries were facing. He said that the international community had no option but to pursue its efforts to devise ways and means to surmount these difficulties in a manner satisfactory to both developed and developing countries.

He said that, while consecutive rounds of trade negotiations within GATT had contributed to the dismantling of barriers to trade and the realization of gains from international trade, results had been less significant for developing countries, including those achieved in the Tokyo Round. In this light, it was understandable that many developing countries were showing reticence about signing the Codes, especially in the absence of a safeguards agreement. He urged that, in any future rounds of negotiations, developed countries give greater attention to improving conditions of access for the exports of developing countries to their markets, in "parallel" with all other elements needed for the process of trade liberalization. Such action would accelerate the growth of the trade of developing countries and its potential for alleviating the effects of recessionary forces.

He hoped that, in the current negotiations within the Committee on Textiles, developed countries would demonstrate more understanding of the demands of developing countries. Textiles was one of the most important sectors in which the developing countries had suffered from protectionist measures and lack of structural adjustment in developed countries' markets. He expressed the view that the reluctance of developed countries to take advantage of the fact that certain products could be supplied more cheaply from abroad was a symptom of structural problems in their own economies. In this connexion, he referred to Part IV of the General Agreement and the need for its provisions to be applied not only in letter but also in spirit.

He said that, in the light of the increasing difficulty of many developing countries in financing food imports, it was important that arrangements dealing with such items should take into account the interests of importing, as well as exporting countries. If a minimum price floor were set, a price ceiling should also be set. He said that despite the provisions in the preamble to the International Dairy Arrangement relating to the developing countries and their social and economic development, dairy prices had been rising since the Arrangement had come into force. This was of great concern for importing developing countries whose balance of payments were already burdened by other priority expenditures. He urged the adoption of a more balanced approach in an effort to comply with the objectives set out in the preamble of the Arrangement.

He said that, in order to deal with present difficulties in an integrated and comprehensive manner, his delegation favoured the convening of a meeting at ministerial level, and was of the view that it should be open to all contracting parties and to developing countries not contracting parties. He considered that adequate preparations for such an important meeting would probably call for the creation of a working group to serve as a supportive unit with the aim of examining issues prior to their submission by the GATT Council to the Ministerial meeting. Such a working group would not obviate action by all relevant GATT bodies in this regard.

In conclusion, he emphasized the need for imagination and clear vision, fostered by adequate political will, if the world recession was to be passed through. Also, there should be resistance to short-sighted calls to protectionism that would keep the world economy more deep-seated in the trough of the recession. Safeguards and the appropriate implementation of the provisions of Part IV should be immediately taken up within GATT with a view to completing unfinished work on those issues. In his view, there were other fields, however, which needed audacity and bold initiatives in the near future, such as the dismantling of the main barriers to trade including quantitative restrictions.

Mr. MACIEL (Brazil) said that the preamble of the General Agreement itself contained the essential elements for defining in broad terms the purpose and objectives of convening at ministerial level the thirty-eighth session of the CONTRACTING PARTIES. The preamble stated that "trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods". Since its establishment, the GATT had evolved and had had some success in liberalizing trade and meeting periodical protectionist crises. However, in his view it was recognized that GATT was now insufficient to meet present day needs; its shortcomings had to be corrected in order to give it the necessary weapons to fight the several forms that protectionism was taking in textiles, in agriculture, in manufactures, etc. The areas needing improvement were known. In some instances, they had been left aside by the major contracting parties whose own priorities had prevailed; in other cases, new situations had arisen to which emergency or ad hoc solutions had seemed to be the only available response by these contracting parties.

He believed that the CONTRACTING PARTIES could learn from the present regrettable situation in world textiles and apparel trade. In this sector, perhaps more than in any other, any arrangement which discriminated against the developing countries was not only unfair - and unacceptable - but also self-defeating. He emphasised that this situation must not continue; that the present restrictions must be phased out, and that no other arrangement

of this kind should be allowed to restrict any other area of international trade. He added that Brazil had been following with the greatest apprehension the lack of progress in the renegotiation of the Multifibre Arrangement and considered that some elements of the proposals put forward by certain importing countries would constitute new and substantial infringements of the General Agreement if accepted.

He said that trade in agriculture was another good example of the new protectionism in developed countries, where subsidies to production and exports were added to tariff and non-tariff barriers and where the bulk of international transactions were kept outside the authority of GATT. He was of the view that this was an area becoming ripe for quick and effective action. In addition, non-tariff barriers, discretionary safeguard measures, tariff escalation and persistent barriers to tropical product imports, long-standing issues of great concern for developing countries, should be considered in more pragmatic terms in the search for durable solutions. He expected that solutions in these areas would be presented to the suggested Ministerial meeting for action.

He noted that the Consultative Group of Eighteen had recently acknowledged the increasing rôle played by developing countries, both as exporters and importers, which had altered significantly the patterns of international trade. The GATT economists, in two remarkable studies, had invited attention to the vital rôle that was being played by the developing countries in sustaining aggregate demand in developed country markets in a time of depression and crisis. He hoped that the Ministerial meeting would address these problems with a view to finding solutions for the benefit of all contracting parties. In this respect, it would be impossible for the Ministerial meeting to ignore the new relevance of the developing countries for the world economy and the consequential fact that their rôle was vital not only to their own economic and social development, but also to the prosperity of developed countries. In his view, the success of the proposed GATT Ministerial meeting might well be measured against GATT's ability to reflect this fact in its decisions.

Mr. INAN (Turkey) said that sessions of the CONTRACTING PARTIES generally outlined a somewhat gloomy picture of the world economy since they were one of the privileged fora in which countries expressed their fears and difficulties and suggested solutions, so as to reach a wider audience and seek a response. In that perspective there was every reason to think that the thirty-seventh session of the CONTRACTING PARTIES was taking place in particularly serious world economic context.

Referring to certain passages in the GATT report "International Trade - 1980/81", he said that the CONTRACTING PARTIES were meeting in a period when objective data on the world economy left them little choice.

Action was necessary. It could be individual, but in his view that was not the right solution. No doubt individual action could give certain countries the possibility of weathering the crisis with less damage than others; but no country, however powerful its economy, could derive a positive benefit, for there was no individual solution to the crisis.

Collective action was therefore necessary, but was GATT the appropriate institution for it? GATT was becoming an instrument whose effectiveness and even usefulness were increasingly being questioned. One could cite certain criticisms that were gaining in importance, being made in the period following a major effort in GATT - the Multilateral Trade Negotiations. There were some doubts about GATT, and some truth in each of those criticisms. Every contracting party felt that certain topics should be better dealt with in GATT. One could also mention differing interpretations of provisions of the General Agreement, and consequent conflicting applications. No doubt one could add sectors which had been neglected by GATT or areas largely outside its purview - agriculture or safeguards in the view of some, trade in services or counterfeiting for others.

The contracting parties must make a positive response and react. Otherwise the criticisms levelled at GATT, hence at individual countries as contracting parties, would be justified and in the long term the General Agreement would become an anachronism - out of date and emptied of substance.

The response of the Turkish delegation was affirmative, and from the outset Turkey had supported the proposal for the next session of the CONTRACTING PARTIES to be at ministerial level. Turkey saw that proposal as an appeal to solidarity vis-à-vis the threat of an economic crisis that would seriously affect any country having to face it alone. First of all, Turkey was therefore expecting a reaffirmation of confidence in the multilateral trading system. Because of the growing protectionist trend and increasing bilateralism in international economic relations despite the existence of GATT, such a reaffirmation of confidence was needed through a declaration of political will to combat protectionism, with adequate and reassuring follow-up action. Given the importance of that will and the scope of the relevant action, a meeting at high political level was necessary.

The Ministerial meeting should have three objectives - evaluation, improvement and, if possible, enlargement. Evaluation not only of the present situation of world trade to define the conjunctural and structural reasons for the crisis, but also of the means available to GATT for facing it and for improving the framework that GATT constituted. The analysis

should be made with complete transparency and with the participation of all contracting parties. Accordingly, the body that was to prepare for the Ministerial meeting should be open to all contracting parties and should leave no place in its work for the concept of so-called "interested" countries, for the interest was general - that of GATT as a whole.

The evaluation should bring out difficulties encountered in trade relations, weaknesses and shortcomings in the provisions of the General Agreement in relation with any particular problems encountered or practices applied by contracting parties despite the existence of adequate provisions. After such an evaluation, the CONTRACTING PARTIES should rapidly be able to move on to the second objective: improvement of the GATT framework.

That improvement would have to correspond to the wishes of all member countries, implying special consideration for the concerns of developing countries. Recent trade negotiations had not taken adequate account of their needs; the Codes resulting from the Tokyo Round were an irrefutable example. In many cases, there were fewer signatories than countries with observer status following the activities of Committees set up under the Codes. Some of the rules adopted were of interest to developed countries but aroused only curiosity or concern on the part of most developing countries. As many developing countries had pointed out at the end of the Tokyo Round, there was a risk of fragmentation of GATT and hence a danger that several such instruments could emerge. Future action to improve the framework governing international trade should allow such discriminations to be avoided. In particular, and for more than one reason, it had not been possible in GATT to treat agricultural products in the same way as manufactures. Agriculture was of prime importance for the developing countries and must have its rightful place in the operation of the General Agreement. The Turkish delegation welcomed and strongly supported the work of the Consultative Group of Eighteen and believed that the Ministerial meeting should give special attention to agriculture in the context of endeavouring to improve the GATT framework.

Such improvement inevitably implied negotiations aimed at generally acceptable solutions, which would call for compromises in which each party could find advantages to offset its concessions. The quality of the end result would not only determine the future of GATT but also would open the way for its possible enlargement. Each contracting party must bear in mind its obligations not only toward each of the other contracting parties but also toward the CONTRACTING PARTIES as a whole.

In that perspective, Turkey was supporting the proposal to convene a Ministerial meeting. The fact that GATT had been regulating world trade since the Second World War was evidence of its adaptability, effectiveness and sound constitution. What might seem exceptional in other fora was accepted as normal in GATT. Wisely eschewing ostentation, its modesty often caused it to pass unnoticed. It would be wrong and totally unjustified to see GATT solely as a forum for dispute settlement and deny its importance in the formulation of trade policies. The time had come to make use of GATT's latent vigour, to break away from routine that could impair vitality and interest that were so essential in the extremely dynamic and changing current situation.

In conclusion, the political authorities would have to unveil the GATT image and proclaim the message that GATT could take on its full rôle and responsibilities in the search for solutions to current and future economic and commercial problems.

Mr. SMITH (United States) said that the world economy was passing through a difficult period, marked by slow growth, high inflation and unemployment. The near future promised more of the same. In these circumstances, pressures for protective measures increased; and governments committed to an open trading system had to be particularly vigilant. The purpose of the GATT was to set forth a system of agreed international rules and disciplines intended to liberalize trade and to assure relative certainty of market access. The GATT also provided mechanisms for managing sensitive and controversial trade problems through consultation and agreed dispute settlement procedures. Recent experience happily showed a growing recourse to these mechanisms. The GATT also provided its contracting parties the possibility to negotiate further reductions in trade barriers and to extend additional disciplines into currently unregulated areas.

He stressed that the maintenance of an equitable balance of rights and obligations and the resolution of problems collectively through co-operation and conciliation depended ultimately on the political will of governments. The positive benefits of the GATT system were frequently not known or appreciated because they consisted of governments refraining from actions they otherwise might take in the absence of the GATT.

He stated that the United States was strongly committed to fostering and promoting the GATT, which remained the cornerstone of United States trade policy. However, the United States also recognized that there were many areas yet to be dealt with in the GATT, or where further work was needed. Although this was a time of testing, the United States was confident that the strength of the system was still sufficient to prevent a collapse of the trading system and a return to the international economic chaos of the 1930s. The results of the Tokyo Round demonstrated that the GATT was flexible and that it could be improved even when protectionist pressures were rising.

He recalled in this connexion that the MTN had been conducted in an unsettled economic environment of soaring energy costs, rapidly rising inflation, balance-of-payments difficulties, slow growth and international protectionist pressures. Nonetheless, agreements had been reached; and the GATT system was considerably strengthened by the disciplines and rules for a number of non-tariff measure areas.

He then pointed out that during the past two years the short-term United States trade policy objective in the GATT had centered on three tasks: Encouraging the widest possible participation in the MTN codes, ensuring that code obligations were met at the national and international levels, and contributing to the effective administration of the codes through the GATT committee structure. A long-term United States objective was further to improve the GATT system. In this regard, his delegation strongly supported the concept of a GATT Ministerial meeting, which he believed would offer the opportunity to address important issues of international trade of interest to both developed and developing countries. It also provided a challenge to work towards a strengthened GATT institution. He therefore supported the establishment of a preparatory body under the Council for this purpose and he encouraged the Council to act promptly so that work would get under way in the very near future.

Mr. VALDIVIESO (Peru) expressed concern over the serious economic crisis that the world was experiencing, and to which frequent reference had been made in other GATT bodies; possible GATT action contributing to a solution should be defined. The proposal for a meeting of contracting parties at ministerial level was welcome, and on that occasion the principal problems facing the international economy should be examined, on the basis of the GATT annual report which identified negative trends in international trade and the difficult situation facing certain groups of countries.

At the last meeting of the Committee on Trade and Development the Peruvian delegation and those of Bolivia and Chile had drawn attention to paragraph 9 of document COM.TD/W/346 which stated: "Countries exporting mainly non-ferrous metals have been severely hit in the sharp decline in their export prices in 1981, in particular those whose exports are heavily dependent on earnings from copper and tin." The situation called for urgent action and, as the Peruvian delegation had already proposed, the secretariat should prepare the studies needed for seeking adequate solutions to those problems, as in the case of tropical products. Considering the high margin of effective protection still enjoyed by manufactures and semi-manufactures of metals that were of particular interest to developing countries, the studies should focus on aspects in relation with tariff escalation. It was essential for the GATT work programme to include that product sector; the last occasion on which the problem had been mentioned had been in the sectoral negotiations during the Tokyo Round, when Canada had suggested preferential consideration for the non-ferrous metals sector.

The 1982 Ministerial meeting would set the path for GATT action over the coming decade and it would be unjustifiable to exclude that product sector from the coverage of the meeting; accordingly Peru was placing its proposal before the contracting parties and inviting them to adopt the relevant decision in the context of the GATT work programme.

In conclusion, he urged developed contracting parties to participate in the negotiations on the Multifibre Arrangement in an effort of compromise reflecting well-deserved comprehension of the situation of developing countries. High officials of industrialized countries, in particular of some States that were not participating individually in the textile discussions, had expressed solidarity with the developing countries; it was to be hoped that those expressions of solidarity would be confirmed by concrete attitudes conducive to liberalizing world trade in textiles, to everyone's advantage.

Mr. SAAVEDRA WEISE (Bolivia), supporting the Peruvian proposal, that a study on the non-ferrous metals sector would be useful for attaining market equilibrium and normalizing international trade in those products. Such improvements would be beneficial to the world economy and would enable producing countries to plan their exportable volumes without being vulnerable to abrupt price variations. He called on all countries to participate actively in the negotiations on the Multifibre Arrangement.

Mr. CAPPELEN (Norway), speaking on behalf of the Nordic countries (Finland, Iceland, Norway and Sweden), said that GATT was at a very important stage of its development. World trade had to a considerable degree been liberalized; and important progress was being made in the area of non-tariff measures through the implementation of the codes negotiated during the Tokyo Round. However, protectionist pressures were making themselves strongly felt, and gave reason for concern even though they had perhaps not yet affected world trade to any large degree. In this respect, the Nordic countries shared the assessment in the GATT study International Trade 1980/81 that the minimal increase in world trade in 1980 and its very unsatisfactory development in 1981 could not be directly attributed to recent protectionist measures, and believed that present trade developments reflected above all the extremely unfavourable economic climate characterized by inflation, economic stagnation, excessive exchange rate fluctuations, high interest rates and very high unemployment, which was the most striking sign of the current economic malaise.

He said that it was becoming more and more clear that the fight against unemployment would have to be a prime concern of governments in their economic policies. The success of such policies would, inter alia, greatly depend on the control of inflation. He said that a solution to present problems in the world economy would only be found in an open and liberal trading environment. The Nordic countries strongly supported the view that, in order to "hold the line" and strive for more imaginative solutions, better use had to be made of the GATT. It was important that GATT carry out its traditional tasks properly and be prepared to deal with new problems that emerged.

Commenting on the Tokyo Round, he said that it was the impression of the Nordic countries that the implementation of the various agreements had been progressing in a satisfactory manner. He expressed the view that there should be a continuous stock-taking of the activities under the Agreements with a view to strengthening and improving them. The forthcoming major review of the Agreement on Technical Barriers to Trade was but one example of the kind of initiative that the CONTRACTING PARTIES might find appropriate in this respect. The Nordic countries had noticed with satisfaction that a number of countries, developed as well as developing, had adhered to important MTN Agreements during the last year. They hoped that more countries would find it in their interest to do so in the near future.

Turning to the safeguards issue, he recalled the importance which the Nordic countries attached to making progress towards improved rules. He suggested that, while it might be very difficult to agree on a concrete and final set of rules at the present stage, a possible avenue would be to negotiate an interim solution. In the view of the Nordic countries, this should, inter alia, provide for greater transparency and constitute a basis for further substantive progress. He looked forward to the resumption of the discussions on this matter.

In regard to textiles, he said that the Nordic countries considered it to be of utmost importance that agreement be reached on a renewed Multifibre Agreement to succeed the present Agreement when it expired. The Nordic countries intended to adhere to the new MFA provided a satisfactory solution were found to the question of an improved minimum viable production clause.

He said that the Nordic countries supported the proposal to convene a Ministerial meeting and concurred with the view that this should take place at the session of the CONTRACTING PARTIES in the autumn of 1982. In his view, GATT's activities and the preparations for the Ministerial meeting should be mutually reinforcing, and the preparatory process for the Ministerial meeting should take fully into account the interests of all contracting parties, developed as well as developing, and the need to

integrate the latter more fully into the GATT. He hoped that within this process it would also be possible to make progress with a view to associating new countries with the GATT system. It was further important that new goals for liberalization should not overshadow the unfinished work bearing on GATT provisions and their implementation. The Nordic countries believed it would be appropriate for the ministerial session to express its views in a declaration. The scope, nature and detailed contents of such a declaration would have to be considered further as part of the preparatory process. He said that the preparatory work would be demanding, but was confident that the spirit of mutual understanding prevailing in GATT would enable the challenge of this work to be met. He stated that the Nordic countries, for their part, would do their utmost to contribute constructively and with an open mind to the success of the ministerial session.

Mr. BURKI (Pakistan) said that the CONTRACTING PARTIES were meeting at a time when the international trade horizons were darkening and that GATT was entering a crucial period in its existence. In Pakistan, the trade deficit had increased 66 per cent from \$1.5 billion in 1978-79 to \$2.5 billion in 1980-81, despite a significant increase in exports, making it increasingly difficult to maintain the liberal import régime which had been sustained since 1973. The lack of success of the developed countries in tackling the problems of inflation, protectionism, structural adjustment and exchange rate instability were having serious consequences for the open trading system and for the GATT.

Recalling the objectives of GATT as outlined in the preamble to the General Agreement, he said that, as one of the original signatories to the GATT, Pakistan attached great importance to the vision of an open trading system and to the framework of rights and obligations established with that vision in mind. He regretted that in recent years the vision had appeared to become more remote and the obligations less binding. In his view, some of the basic principles of GATT were being increasingly challenged in practice as well as in theory - the lack of respect for the principles of comparative advantage and progressive increase in international specialization, the spread of quantitative and discriminatory restrictions, the arbitrary allocation of market shares in an order of ascending severity for the most competitive suppliers and the proliferation of preferential arrangements. He considered that the current MFA negotiations illustrated how widespread was the belief in these ideas. In the textile sector, the developing countries had been waiting for over 20 years for the "magic of the marketplace" to work.

His delegation believed that the viability of GATT would not be sustained by verbal reassertions of its principles, but through diligent pursuit of GATT obligations and a dynamic response to challenges as they emerged. The various GATT negotiating rounds were testimony to this.

The MTN Codes had strengthened the GATT framework in a number of crucial areas. In addition, his delegation was particularly happy to note the healthy evolution of the GATT dispute settlement machinery. However, he felt that the multilateral instruments fashioned during the Tokyo Round were inadequate for dealing with the challenges of today.

He said that the most important of these was the persistent phenomenon of protectionism, which in some sectors had become institutionalized and entrenched. It was vital that the CONTRACTING PARTIES find concrete ways and means to contain protectionism before it destroyed the entire framework of the international trading system. In addition, the small trading nations must be saved from the effects of protectionism, a phenomenon which acted most adversely against the interests of such nations and in a fashion which prevented them from realizing the benefits of their comparative advantage and froze their share of world trade at low levels. These countries had joined GATT because of the attractiveness of the MFN principle, a principle which promised to enable them to counterbalance their lack of trading muscle and ensure for them security of market access. Today, such nations were finding that the MFN principle was being seriously eroded by the spread of bilateralism.

He expected that these were some of the concerns and challenges which the proposed GATT ministerial-level meeting would address. He endorsed and welcomed the proposal for such a meeting and looked forward to co-operating with other contracting parties in preparing for it, in a manner which would reverse the course along with which the system of international trade had been moving.

Mr. SOLBES MIRA (Spain) said that a review would be appropriate of developments since the CONTRACTING PARTIES had adopted the results of the Tokyo Round. Such a stock-taking must take account of the current economic situation, in particular the fact that 1980 had been for the first time a year of zero growth in international trade, and could focus on implementation of the work programme adopted by the CONTRACTING PARTIES on that occasion. It would thereafter be appropriate to examine the causes of zero growth and the question of adapting the multilateral legal instruments of GATT with a view to improving the world economic situation and expanding trade among the contracting parties.

Positive developments in the past two years included in the first place the entry into force of instruments resulting from the Tokyo Round; nevertheless, although they had been operating satisfactorily, fewer countries than would have been desirable were participating in them. Another positive development was increased dialogue among countries, whether in fora of a general character, at the sector level or in bodies concerned with particular trade barriers. Also positive was the new emphasis on studies concerning economic development problems through the revitalization, though not yet to the full extent, of the Committee on Trade and Development; the studies and publications on trade that the secretariat was preparing, whether statistical or in the nature of technical and economic research, would be very useful.

Among negative aspects, the speaker mentioned shortcomings that had become apparent in certain instruments - whether the General Agreement itself or other instruments negotiated within GATT - and which should be remedied. With respect to the Tokyo Round, the Spanish authorities considered the overall balance positive although the results in general took account of the foreign trade problems of developed countries, despite the Tokyo Declaration aim of particular efforts in favour of developing countries. Various problems connected with the world economic crisis had prevented his country from acceding to some of the Tokyo Round agreements for the time being, as had the failure to reach consensus on a formula for accepting reservations which would have allowed Spain to accede conditionally to some of those agreements. Those various factors had unduly delayed Spain's full participation in all the spheres of co-operation resulting from the Tokyo Round.

Although no major progress had been made on safeguards, it was to be hoped that the activities of the Working Party on Structural Adjustment would throw new light on that very important and delicate matter. Similarly, no consensus on a solution had yet been reached in connexion with the legal framework for trade in agricultural products; a pronounced increase had resulted in disputes on various aspects of agricultural trade among contracting parties, with the consequence that the dispute settlement procedure of Article XXIII:2 was being invoked too frequently.

That procedure was one of the cornerstones of the General Agreement and needed revision with a view to improving it. The 1979 Agreement should be implemented in full and to the letter, particularly with respect to expeditiousness in the procedure. Similarly, once a dispute settlement procedure had been initiated it should be carried through to the end and not simply suspended or put in hibernation.

Because of the growing number of cases under the Article XXIII:2 procedure and the increase in interpretations of the General Agreement, a listing of them would be extremely useful for better interpretation of the provisions of the General Agreement and other instruments negotiated within GATT. Dispute

settlement was of the utmost importance because it ensured peaceful settlement of trade dispute and constituted a guarantee for all countries, especially those with less economic and trade potential which were ill-placed to resort to retaliatory measures or other similar procedures.

Certain other pending problems were also deserving of priority attention. The surveillance framework should be improved as far as possible by identifying problems, preparing solutions to them and ensuring compliance with the results achieved. Thorough preparation was necessary for the Ministerial meeting of the CONTRACTING PARTIES, using existing GATT bodies and creating new ones where appropriate. A concrete programme should be established for the meeting which must in no case be limited to general statements merely reaffirming loyalty to a multilateral, liberalized and outward-looking trading system, since that affirmation was already axiomatic in the General Agreement. Other priority tasks for the CONTRACTING PARTIES were to develop and implement the work programme drawn up in 1979 and approved by the CONTRACTING PARTIES as well as to renew the Tokyo Round Agreements at the end of the three-year period. That exercise should not be limited to simply taking note of renewal, but should be the occasion for identifying any unforeseen problems that had arisen over the three-year period and seeking better solutions to them. In summary, future GATT activities should be based on the search for solutions through pragmatic conciliation rather than through the establishment of formal mechanisms. In that connexion, it would be relevant to improve, update and speed up existing procedures; in the light of new production and trade structures, further study was needed of some of the matters to which GATT had been giving attention since its inception, such as the defence of competition and the hegemony of transnational enterprises. Those topics could appropriately be taken up first in the Consultative Group of Eighteen. Attention could also be given to the question of the Protocol of Provisional Acceptance of Part II of the General Agreement with a view to securing fuller acceptance. In connexion with trade in services, a precise definition of the term was needed and its coverage should include services of particular interest to developing countries, such as improved facilities for remittances by foreign workers, or more generous granting of funds for tourism which affected that sector's expansion in developing countries.

In conclusion, all the tasks he had mentioned were concerned with adapting the GATT instruments to the needs of regulating and expanding international trade. In view of the fact that those instruments were becoming increasingly complex and heterogeneous, implying a growing need to harmonize and interpret them, his delegation wondered whether the next session of the CONTRACTING PARTIES at ministerial level would not be an appropriate occasion for initiating an in-depth reform of the text of the General Agreement. The problems were many and their solutions would be difficult, but on them would depend the future of international economic and trade relations and the orderly development of those relations. Forecasting for the immediate future was essential if the legal instruments that made up the GATT were to be adequate for the problems that would have to be solved.

Mr. PARK (Republic of Korea) said that this session was being held in a situation where the multilateral trading system was confronted with serious problems and challenges. Important issues were therefore at this session: protectionism, import liberalization, MFA, safeguards and the GATT Ministerial meeting.

He pointed out that as an oil-importing developing country, Korea continued to view with serious concern the protectionist trends in world trade. Over the past year, protectionist pressures affecting his country had increased and in 1980, nearly 43 per cent, as against 37 per cent in 1979, of the Korean exports to the industrialized countries were subject to various restrictions.

He therefore strongly urged that determined efforts of the CONTRACTING PARTIES be made without further delay to cope with the threatening protectionist trend in international trade. He added that notwithstanding this development, Korea had been living up to the principles and rules of GATT, and had continued to pursue import liberalization, even in the light of a widening trade deficit during the past two years. Thus, in May 1981 his Government had further liberalized 396 commodities representing an increase of the import liberalization ratio to 74.7 per cent from the previous 69.4 per cent. In addition, a bill of tariff reductions ranging from 10 per cent to 50 per cent on 311 items was under deliberation in the National Assembly.

He said that his country also attached great importance to the satisfactory conclusion of the MFA negotiations. Considering the importance of textile exports to developing countries, he strongly urged the developed countries to be more responsive to the proposals of the developing countries, and expressed the hope that the negotiations would be successfully concluded before the expiry date of the current Arrangement.

Turning to safeguards, he said that his country had continued to regard this area as a very important issue and followed with keen interest the work of the Committee on Safeguards. He expressed the hope that the Committee would be able to expedite its work in order to arrive at a satisfactory solution at an early date.

He stated that his delegation favoured, in principle, the convening of a meeting of the CONTRACTING PARTIES at ministerial level in 1982. He believed that frank discussions at the ministerial level would improve the multilateral free trading system and that it would lead to a wider participation of developing countries in the system in view of their increasingly important rôle. His delegation also supported the suggestion that the GATT Council should be entrusted with the preparation of the Ministerial meeting.

The meeting adjourned at 1 p.m.