

GENERAL AGREEMENT ON TARIFFS AND TRADE

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MANAGEMENT OF GATT

Note by the Secretariat

Attached is the text of the statement made by the Director-General to the Council on 21 June 1974 relating to the trade policy aspects of the work of the Committee of Twenty of the International Monetary Fund, together with a Note by the Secretariat containing suggestions on how the CONTRACTING PARTIES might organize themselves in order to carry out their part in the co-ordination between GATT and the IMF called for in the final report of the Committee of Twenty.

TRADE POLICY AND
REFORM OF THE INTERNATIONAL MONETARY SYSTEM

Statement by the Director-General
to the Council - 21 June 1974

1. The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues (the Committee of Twenty) began its work in September 1972 and had its final meeting on Friday, 14 June 1974.¹
2. A major item on the agenda of the Committee of Twenty from the beginning was the problem of adjustment to balance-of-payments difficulties. While most of the attention given by the group was to the monetary and financial aspects, the question of the use of trade restrictions was also frequently discussed. In the Committee's various final statements, the matter of trade policy is dealt with in several places.
3. The "Outline of Reform" itself is divided into two parts. Part I represents the Committee's general views of the reformed international monetary system and the general direction in which the Committee believes a system could evolve in the future. The relevant statement in this part of the Committee's work is:

"There will be a strong presumption against the use of controls on current account transactions or payments for balance-of-payments purposes. In this connection arrangements will be made for continuing close co-ordination between the Fund and the GATT."

"Wherever possible developing countries will be exempted from controls imposed by other countries, particularly from import controls and controls over outward long-term investment."

¹The "Communiqué" issued at the end of the final session of the Committee of Twenty Deputies also stated that the Committee urged that the Multilateral Trade Negotiations in the framework of the GATT should continue to be regarded as a matter of priority.

The various matters referred to in the "Outline of Reform" and related documents will be incorporated in the report on its work which the Committee of Twenty will be making to the Board of Governors of the International Monetary Fund for the latter's formal approval at the annual meeting of the Fund in September 1974.

4. The Committee of Twenty recognized that it will be some time before a reformed system can be finally agreed and fully implemented. It therefore set out in Part II of the "Outline of Reform" a series of "Immediate Steps" which the Group concluded could and should be taken now. With respect to trade matters, the Group recommends that, during this interim period, countries should be guided by the principles referred to in paragraph 3 above and that "..... arrangements will be made for continuing close coordination between the Fund and GATT."

5. The Committee of Twenty attached particular importance to the avoidance, during the interim period, of the escalation of restrictions on trade and payments for balance-of-payments purposes. It therefore has invited members to subscribe to a "Declaration" concerning trade and other current account measures. The text is as follows:

"Declaration on Trade Measures"

The Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues has stressed the importance of avoiding the escalation of restrictions on trade and payments for balance of payments purposes. Accordingly certain members of the Fund expressed their wish to subscribe to a Declaration as follows to give effect to that recommendation.

DECLARATION

A. A member of the Fund that subscribes to this Declaration represents thereby that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement of the Fund, it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT or recommend them to its legislature, without a prior finding by the Fund that there is balance of payments justification for trade or other current account measures.

B. A member that subscribes to this Declaration will notify the Fund as far in advance as possible of its intention to impose such measures. If circumstances preclude the Fund from making the finding referred to in A above promptly after such notification, the member may nevertheless impose such measures, but will withdraw the measures, within such a period as may be fixed by the Fund in consultation with the member concerned, if the Fund finds that there is no balance of payments justification for trade or other current account measures.

- C. In arriving at the findings referred to above, the Executive Directors are requested to take into account the special circumstances of developing countries.
- D. In connection with this Declaration arrangements will be made for continuing close coordination between the Fund and the GATT.
- E. This Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed."
6. The Committee of Twenty has invited the Executive Directors of the Fund to establish the necessary procedures in connexion with the "Declaration", and to make arrangements for continuing close co-ordination with the GATT.
7. The monetary reform also provides that a new Council¹ of the Board of Governors on the International Monetary System (twenty members) will be established. It will have responsibilities for supervising the management and adaptation of the monetary system, overseeing the continuing operation of the adjustment process, and dealing with sudden disturbances which might threaten the system.
8. The creation of a new management body in the Fund, and the various statements by the Committee of Twenty on the need for "continuing close coordination between the Fund and the GATT" poses the question of how the CONTRACTING PARTIES can best fulfil their responsibilities in this respect by organizing themselves to carry out this co-ordination. The need for finding an answer is urgent, as the new Fund management body is scheduled to hold its first meeting in September 1974 and in view of the possible early implementation of the "Declaration on Trade Measures".

¹Pending the legal steps necessary to create the Council on a permanent basis, an "Interim Committee" is to be established and is scheduled to hold its first meeting in September. It is proposed that, when formally established as a Council, it will have decision-making powers. As an "Interim Committee", it will have an advisory rôle.

MANAGEMENT OF THE GATT

Note by the Secretariat

I. INTRODUCTION

Events of the past two years have clearly demonstrated the need for continuous management of the international economic system, both in its monetary and in its trade aspects. Potentially disruptive situations will continue to confront the world economic community and, in particular, serious international adjustment problems arising from balance-of-payments difficulties must be anticipated.

In this context, the adequacy of existing international institutions and their capability to operate with the necessary effectiveness in the conditions of the modern world have increasingly become the subject of general discussion and scrutiny. The two institutions most closely concerned are, of course, those with major operational responsibilities in international economic relations: the IMF on the monetary side and the GATT on the trade side.

The Finance Ministers in the Committee of Twenty have now completed their work on the question of the reform of the world monetary system. Among other things, they have concluded that a new management body should be established to enable the IMF more effectively to fulfil its rôle on the monetary side in the management of the international economic system.

It is suggested that there is also a clear need for the CONTRACTING PARTIES, for their part, to consider whether the GATT as an institution is adequately equipped to carry out, in the economic environment likely to prevail for some time to come, the proper responsibilities of the CONTRACTING PARTIES and to make its maximum contribution, on the trade side, to the more effective management of the international economic system.

In its structure, the principal permanent machinery of the GATT has remained unchanged for fifteen years and there would seem to be no doubt that, against the background of international economic developments, some institutional adaptation and modernization are called for in order to fill a gap that has become increasingly apparent.

The readiness of the CONTRACTING PARTIES to make the necessary institutional changes -- in the form of appropriate new machinery -- so as to enable them, as in the past, to discharge satisfactorily their responsibilities toward the multilateral trading system is the fundamental question that needs to be answered.

The two principal organs in the GATT are the CONTRACTING PARTIES and the Council of Representatives. Since the GATT came into effect, the number of contracting parties has increased from 23 to 83, while the Council now numbers some 60 members. These two organs continue to retain their full competence and authority, but it can reasonably be argued that the nature of their functions and their continually growing membership preclude the possibility of their operating with the required flexibility and speed as compact, dynamic bodies specifically geared to anticipating, and if possible forestalling, emergencies in the trade field, or confronting such emergencies if they arise.

II. MANAGEMENT GROUP

Relationship with other GATT bodies and terms of reference

What it is suggested is needed in the GATT is a body consisting of not more than twenty high-level representatives competent to discuss international trade matters, within the political context and on the basis of their personal knowledge and authority and their rôle in the formulation and conduct of their countries' commercial policies.

Relationship with other GATT bodies

This body, which might be called the Management Group, would not impinge upon the competence or authority of the CONTRACTING PARTIES or the Council and would not assume, or detract from, any of the decision-making responsibilities and prerogatives of these two bodies. Neither would it interfere with the activities and competence of the Trade Negotiations Committee; or of the permanent GATT committees, such as the Balance-of-Payments Committee, which would continue to operate in the normal way under the provisions and procedures of the General Agreement.

Functions

The Management Group would follow and endeavour to anticipate developments in the trade field, including in particular developments in the trade aspects of the international adjustment process; would aim to reach a consensus on what kind of policies might be desirable in the context of such developments and in order to forestall impending critical situations or to deal with such situations if they had, in fact, already arisen; and would facilitate co-ordination and co-operation with other institutions principally concerned with the management of the international economic system.

No formal decisions would be taken by the Management Group. These would continue to be taken by the CONTRACTING PARTIES or the Council. The rights and obligations of contracting parties would in no way be affected.

The Management Group could, for example, appropriately be apprised in advance by a country of measures it intended to take likely to have serious effects on the trade interests of many contracting parties. A frank exchange of views at the level of those responsible for trade policy matters could, through the process of concertation, exercise a moderating influence or act as an element of dissuasion, lead to a better understanding of what was involved for the country imposing the measures, for other countries and for economic relations generally, as well as offer an opportunity for constructive proposals to be put forward to alleviate, sometimes on a multilateral basis, the existing unsatisfactory situation. The appropriateness of the measures would not be a subject for discussion and decisions would not be taken. The recognized GATT mechanics, such as the normal establishment of a working party by the Council to consider the matter and report to the Council, would remain unchanged.

Co-ordination and co-operation with the IMF

Many of the international economic problems confronting governments have, of course, both trade and monetary aspects and it follows that the efficient management of the international economic system requires that the GATT and the IMF work closely together on these matters. In this connexion it should be noted that, in the final report of the Committee of Twenty, it is specifically stated that arrangements will be made "for continuing close co-ordination between the Fund and GATT".

The basic relationship between the GATT and the IMF is formally governed by Article XV of the General Agreement and this would continue unchanged.

At present, practical co-ordination with the IMF on the GATT side is provided on the initiative of the Director-General and the secretariat. What is now urgently needed, particularly in modern conditions and following also the proposed establishment of a Council of Governors in the IMF, is the provision of practical co-ordination through the medium of some representative GATT body; in other words, to involve the contracting parties and not the secretariat alone, in the process of practical co-ordination with the IMF. It is considered that the Management Group could well carry out this rôle and thus fill an existing gap in GATT's machinery which, if allowed to continue, could only work to the detriment of the authority and influence of the GATT.

Establishment and terms of reference

As when the Council was established, no amendment to the General Agreement would be necessary to establish the Management Group. It could be set up on an interim basis by the Council, pending formal approval by the CONTRACTING PARTIES at their forthcoming session.

The following are proposed, for consideration by contracting parties, as terms of reference for the Management Group:

"The task of the Management Group is to facilitate the carrying out, by the CONTRACTING PARTIES, of their responsibilities, particularly with respect to:

1. following international trade developments with a view to the pursuit and maintenance of trade policies consistent with the objectives and principles of the General Agreement;
2. the prevention, whenever possible, of sudden disturbances that could represent a threat to the multilateral trading system and to international relations generally and action to deal with such disturbances if they in fact occur;
3. the trade aspects of the international adjustment process and the co-ordination, in this context, between the GATT and the IMF."

The Management Group shall normally meet three times a year and shall hold further meetings as the Chairman of the Group, in the light of international trade developments, may consider necessary.

Composition

The Management Group should provide for balanced and representative participation of the contracting parties.