

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

GPR/W/61  
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Special Distribution

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Committee on Government Procurement

## FOURTH ANNUAL REVIEW (1984) OF THE IMPLEMENTATION AND OPERATION OF THE AGREEMENT

### Background Document by the Secretariat

1. Article IX:6(a) of the Agreement on Government Procurement provides, inter alia, that "the Committee shall review annually the implementation and operation of this Agreement taking into account the objectives thereof". Article III:13 states, inter alia, that "the Committee shall review annually the operation and effectiveness of this Article ..." i.e. Article III (Special and Differential Treatment for Developing Countries)".
2. At its meeting of 20 June 1984, the Committee requested the secretariat to prepare a background working document for the fourth annual review, to take place at the November 1984 meeting, along the lines of previous years' reviews. Parties were invited to submit by 10 October 1984 additional information to the extent that this had not already been done in the normal course of the work. As usual, the background document could be revised after the review to take into account any additional points to give a full picture of the Committee's activities in 1984 (GPR/M/12, paragraph 30).
3. This present document is circulated by the secretariat in accordance with these procedures.
4. It is recalled that the previous annual reviews, covering the work of the Committee in 1981, 1982 and 1983, are contained in GPR/W/9/Rev.1 and Corr.1, GPR/16 and GPR/18 respectively.
5. The contents of the paper are as follows:

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A. COMPOSITION OF THE COMMITTEE ON GOVERNMENT PROCUREMENT

Chairman: Mr. B. Henrikson (Sweden)

Vice-Chairman: Mr. A. Stoler (United States)

Members:

The Parties to the Agreement are members of the Committee in accordance with Article VII:1:

Austria, Canada, European Economic Community, Finland, Israel, Japan, Norway, Singapore, Sweden, Switzerland, United Kingdom on behalf of Hong Kong, and the United States.

Observers:

(i) The following governments have become observers in the Committee under the procedures adopted for the participation of observers:

GATT contracting parties:

Argentina, Bangladesh, Brazil, Cameroon, Chile, Cuba, Czechoslovakia, Dominican Republic, Egypt, Gabon, Hungary, India, Indonesia, Ivory Coast, Jamaica, Kenya, Korea, Malaysia, Malta, New Zealand, Nicaragua, Nigeria, Peru, Philippines, Portugal, Romania, South Africa, Spain, Thailand, Trinidad and Tobago, Turkey, Zaire.

Non-contracting parties:

Ecuador.

(ii) The following international organizations are invited on a meeting-by-meeting basis to be observers in the Committee, as provided for in the relevant decision taken:

IMF, UNCTAD.

B. MEETINGS OF THE COMMITTEE

The Committee on Government Procurement held regular meetings on 1-2 February, 11-12 April, 20 June, 19 September and [ ] November 1984. The notes by the Chairman are contained in L/5606, L/5641, L/5660, L/5684 and L/[ ]. The question of value-added tax and threshold, referred to the Committee under the dispute settlement procedures of Article VII of the Agreement, was the subject of a meeting without observers on 31 January, 15 February, 10 April and 16 May 1984; at the first and third of these meetings the Committee also conducted a second statistical review, finalized on 18 June 1984.

C. DECISIONS TAKEN BY THE COMMITTEE

At the meeting of 20 June 1984, the Chairman, noting that the question of transparency had been one question raised by observers in the Committee, announced the Committee's decision that in the future statistics would be

circulated as ordinary GPR documents (and thus be available to observers), that statistical reviews be conducted in regular Committee meetings, and that the statistics be derestricted one year after the conclusion of the annual review (GPR/M/12, paragraph 9; L/5660, paragraph 4).

Also at the meeting of 20 June 1984, the Chairman informed the Committee that the report of the Panel on Value-Added Tax and Threshold had been circulated to the Parties to the Agreement on 17 January 1984 and had been adopted at the restricted meeting on 16 May 1984. A number of statements had been made following the adoption (GPR/M/12, paragraph 92; L/5660, paragraph 14). The Panel's report as well as the statements made in the Committee on the occasion of its adoption was circulated as GPR/21.

At the meeting of 1-2 February 1984, one Party stated as its understanding, and no contrary views were held, that the agreed procedures for participation of observers in the Article IX:6(b) negotiations implied that if an observer wished to become participant on the basis of an entity offer presented prior to the negotiations, it should notify the Committee to this effect. In doing so, the observer would undertake the same requirements as the same Parties had undertaken in respect to the submission of information on entities and other aspects of the negotiations (GPR/M/10, paragraphs 34-35; L/5606, paragraph 5(a)).

At the meeting of 1-2 February 1984, the Committee agreed to request the secretariat to start compiling a draft for a practical guide to the Agreement (GPR/M/10, paragraph 82; L/5606, paragraph 6).

Minor amendments to Annex IV of the Agreement concerning Israel and Annex I of the Agreement concerning the United States, became effective as of 9 February and 22 June 1984, respectively, as certified by the Director-General in the GLI/272 series.

Decisions concerning further work to be undertaken in various fields are dealt with under the relevant items below.

D. NATIONAL LEGISLATION (ARTICLE IX:4)

The Committee continued its examination of national implementing legislation and practices. In the course of this examination, a number of questions concerning individual countries were raised. Among the issues taken up were the relative frequency and modalities surrounding the use of single tendering or negotiated contracts, sometimes linked to the use of maximum prices; the relative frequency of tenders being advertized under the Agreement including publication solely for information purposes; pre-identification of tenders and the quality of ex ante information concerning criteria for award and some other conditions; problems related to procedures for qualification of suppliers, including the time involved and the lack of transparency; problems relating to the time-limits laid down in Article V for submitting bids; delivery deadlines; the frequency of recurring purchases; preferential treatment of domestic suppliers through the use of so-called derogation clauses; offset procurement; notifications of modifications to entity lists or minor amendments in the light of Article IX:5, including the question of compensation; some statistical questions; and questions relating to proposed new legislation.

The following summary of general information concerning action to ensure that the provisions of the Agreement are applied, updates the general information contained in the documents emanating from the three previous annual reviews.

EUROPEAN ECONOMIC COMMUNITY

- FRANCE

In the course of the Committee's discussion of national implementation and administration of the Agreement, France gave explanations on the functioning of the procedure of negotiated procurement. (Reference: GPR/M/11, paragraph 9 and GPR/M/12, paragraph 67.)

- ITALY

At its April 1984 meeting Italy confirmed that as from 1 January 1984 the Presidency of the Council coordinates the activities of procuring entities in general. (GPR/M/11, paragraph 11. Previous reference: GPR/M/8, paragraph 20.)

FINLAND

The Government Fuel Centre has since 2 January 1984 been an independent State-owned company, which operates outside the Government budget economy. The changed status of this entity, which is no longer covered by the Agreement, was discussed at the Committee's meetings in April, June and September 1984 (GPR/M/11, paragraphs 14-19; GPR/M/12, paragraphs 54-61; and GPR/M/13, paragraphs 31-34). A rectification concerning the entity notified by Finland as falling within the meaning of Article IX:5(a) of the Agreement met with formal objections under the same provision from one other Party which considered that Article IX:5(b) was the relevant provision in the matter (L/5641, paragraph 6; L/5660, paragraph 10). Finland announced at the September 1984 meeting its readiness to consider compensatory adjustment with a view to maintaining the balance of concessions. Two other Parties welcomed this development and considered it a useful precedent (L/5684, paragraph 7).

ISRAEL

At the February meeting the Committee was informed that an interministerial committee had been established for the purpose of the hearing and review of complaints, composed of the Director General of the Ministry of Commerce and Industry (Chairman), the Paymaster General of the Ministry of Finance and the Counsellor for International Affairs, Department of External Trade, Ministry of Commerce and Industry. Complaints could be lodged directly with the latter and other Parties should contact the permanent Mission of Israel in Geneva. (GPR/M/10, paragraph 15.)

A new entry in Annex IV of the Agreement indicates that "The Official Gazette of the State of Israel" is the publication utilized by Israel for the publication of laws, regulations, judicial decisions, administrative rulings of general application and any procedure regarding government procurement covered by the Agreement (as indicated under item C above).

### JAPAN

In the course of the Committee's discussion of national implementation and administration of the Agreement, Japan gave explanations on the use of single tender with particular reference to the functioning of the maximum price system (reference: GPR/M/10, paragraph 18; GPR/M/11, paragraphs 21 and 24; and GPR/M/12, paragraphs 43 and 45). Further information was provided on the treatment of high-priced bids in the context of the Article IX:6(b) negotiations.

### SWEDEN

Sweden has submitted amendments to its Government Procurement Ordinance, as indicated in GPR/3/Add.2/Suppl.2 and GPR/14/Add.3. The documentation is open for inspection in the secretariat.

### UNITED STATES

A change in the United States' entity list, notified in GPR/20, has come into force, as indicated under item C above.

At the February 1984 meeting the Committee was informed that the purpose of the new Federal Acquisition Regulations had been to combine and modernize the two separate sets of procedures and regulations (the Defense Acquisition Regulations and the Federal Procurement Regulations) (GPR/M/10, paragraph 25). The Federal Acquisition Regulations are open for inspection in the secretariat. The same applies to the United States Federal Supply Classification (FSC), as indicated in GPR/14/Add.4.

In the course of the Committee's discussion of national implementation and administration of the Agreement, the United States gave explanations as to steps which had been taken to ensure that entities used footnote 12 in Commerce Business Daily correctly. (This footnote indicates when a given contract falls under the GATT Agreement.) Footnote 12 purchases can be identified through subscribing to three different computer services (GPR/M/10, paragraph 25; GPR/M/11, paragraph 13 and GPR/M/12, paragraph 80).

The Committee was informed that a computerized study of compliance with the Agreement was underway (GPR/M/11, paragraph 13 and GPR/M/12, paragraph 80).

Concerning labour surplus set-asides by the Department of Defence, the footnote in CBD identifying such purchases has been modified to avoid any confusion that might have existed with respect to foreign participation in tenders (GPR/M/10, paragraph 25 and GPR/M/11, paragraph 13).

### JAPAN AND THE UNITED STATES

At the February 1984 meeting, the Committee was informed that the Governments of Japan and the United States had renewed the NTT agreement for a period of another three years and that it contained, inter alia, an understanding regarding improvements in procurement procedures of the NTT (GPR/M/10, paragraph 28).

**E. ESTABLISHMENT IN NATIONAL CURRENCIES OF THE THRESHOLD (150,000 SDRs)  
FOR THE PURPOSES OF PUBLIC NOTICES, REFERRED TO IN ARTICLE V:3**

According to procedures agreed upon in 1981, thresholds expressed in national currencies are fixed for the calendar year, except for Japan and Singapore where the fiscal year (1 April to 31 March) is used. Israel has informed the Committee that a one-year period would not be realistic given the rate of inflation and devaluations.

Information received from the Parties for 1984 was as follows:

AUSTRIA - S 2,844,705  
CANADA - Can\$ 199,000  
EUROPEAN ECONOMIC COMMUNITY - ECU 177,000

Thresholds applied in member States:

- BELGIUM - BF 8,100,000  
 - DENMARK - Dkr 1,439,000  
 - FRANCE - F 1,100,000  
 - FEDERAL REPUBLIC OF GERMANY - DM 403,811  
 - IRELAND - EIr 125,450  
 - ITALY - Lit 238,008,360  
 - LUXEMBOURG - Lux F 8,195,029  
 - NETHERLANDS - f. 449,522  
 - UNITED KINGDOM - £ 103,996

FINLAND - FIM 890,000  
HONG KONG - HK\$ 1,138,000  
ISRAEL - US\$ 160,000  
JAPAN - ¥ 38,000,000  
NORWAY - NOK 1,170,000  
SINGAPORE - S\$ 341,832  
SWEDEN - SEK 1,221,000  
SWITZERLAND - Sw F 335,000  
UNITED STATES - \$ 161,000

**F. ARTICLE IX:6(B) NEGOTIATIONS**

**(i) General**

The negotiations are undertaken by the Parties to the Agreement in accordance with Article IX:6(b).

Following the decision taken by the Committee in November 1983 (L/5578, paragraph 3(e)), and in order to facilitate participation by non-parties interested in seeking accession to the Agreement, an airgram issued on 12 January 1984 (GATT/AIR/1977) invited governments not Parties to participate, it being pointed out that they would be considered participants in the negotiations when they had tabled an entity offer, which could be done at any point in time during the negotiations. The basis for the participation of non-contracting parties to the GATT would be Article IX:1(d). Further modalities for participation of observers was also agreed upon at the meeting of February 1984, as mentioned under item C above.

The airgram also invited observers to explain problems they might have encountered in acceding to the Agreement so that the Committee might be in a position to examine such problems with a view to ascertaining whether it could do something to make accession of interested observers easier. No written communication was received in response to this invitation. However, at the February 1984 meeting an observer made a statement concerning the need for flexibility and transparency in order to facilitate accession of developing countries (GPR/M/10, paragraph 3; L/5606, paragraph 3).

(ii) Improvements of the Agreement

The process of identifying issues to be taken up in relation to improvements of the Agreement was started at the February meeting, on the basis of suggestions tabled by Parties. At the April meeting, the Committee continued this process and took note of a number of clarifications and preliminary comments, questions and explanations concerning suggestions made in this regard. The secretariat was requested to prepare a consolidated list of suggestions made. It was further agreed that delegations who so wished might put forward draft texts, when relevant, so as to sharpen the focus of the work (L/5606, paragraph 5(b), L/5641, paragraph 3(b); GPR/M/10, paragraphs 36-41; GPR/M/11, paragraphs 30-40).

A "Consolidated List of Suggestions Made for Improvements of the Agreement" (GPR/W/56) served as background documentation for the June meeting. Some suggestions raised no particular problem from a conceptual point of view, some were related to the general implementation of the Agreement and some were related to the question of broadening of the Agreement. One Party made an additional proposal for improvements (GPR/W/56/Add.1). The Committee focussed on proposals that needed to be further clarified or made more specific. It was agreed that it would be useful if Parties that had made suggestions for improvements provided more precision in terms of specific language as to how the Agreement might be improved. The secretariat circulated a paper summarizing views and suggestions for improvements expressed in more general terms in oral statements as from the opening of the negotiations in November 1983. This documentation (GPR/W/56/Add.2), pertained mainly to questions relating to developing countries (L/5660, paragraphs 3-4; GPR/M/12, paragraphs 3-11).

At the September meeting, three Parties tabled precise textual proposals for improvements (incorporated in a revision of GPR/W/56). Replies by eight Parties to the questions agreed upon at the June meeting concerning rules of origin and the treatment of high-priced bids were before the Committee in GPR/W/59/Add.1 and Add.2. Further information was presented by some Parties (GPR/W/59/Add.3). The Chairman reiterated the invitation to interested delegations to provide more precision in terms of specific language as to how the Agreement might be improved whenever this was possible. Delegations remain free to provide further proposals (L/5684, paragraph 3; GPR/M/13, paragraphs 3-18).

(iii) Broadening of the Agreement

At the April, June and September meetings the Committee took note of the fact that only one Party had tabled request lists to other Parties concerning the broadening of the coverage of the Agreement to include

additional entities. It also noted that no entity offers had been received from observers (GPR/M/11, paragraphs 41-47; GPR/M/12, paragraphs 12-15). At the September meeting, one Party recalled that the April 1984 meeting had been the agreed target date, expressed concern about the lack of progress and reiterated a statement at the June meeting that the three elements in the negotiations had to be pursued in parallel. A number of other Parties explained that they were in the process of formulating requests. In this connection, one of these delegations urged other Parties to provide lists of their non-covered entities, as agreed by the Committee (L/5684, paragraph 4; GPR/M/13, paragraphs 19-24).

(iv) Service contracts

At the February meeting, the Committee addressed the question of the launching of studies on certain types of service contracts, in the light of preparatory work and further suggestions tabled and arguments made at the meeting (L/5606, paragraph 5(d); GPR/M/10, paragraphs 60-73).

At the April meeting the Committee agreed on issues to be examined in the initial pilot studies to be undertaken in the context of government procurement, as it related to the objectives of the Agreement, on architectural and consulting engineering services and insurance services. These are reproduced in GPR/M/11, Annex 1. It was clear that the fact that studies were launched did not prejudice the position of any delegations in the negotiation nor the rôle of the secretariat in the area of services. 15 September 1984 was set as target date for submission of national contributions to the studies. One observer raised the question of the Committee's activities, with particular reference to services which, in the overall context of GATT's activities, had to take full account of the 1982 Ministerial Decision. The Chairman recalled that the Committee was required to deal with service contracts pursuant to Article IX:6(b) of the Agreement and that the CONTRACTING PARTIES had recognized this in the action they had taken on 28 November 1979. (L/5641, paragraph 3(d); GPR/M/11, paragraphs 48-52).

At the June meeting the Committee discussed whether service contracts other than the two types already covered might be included in the study agreed upon. Computer services, advertizing and building maintenance, including cleaning services were taken up in this connection. A number of reservations were expressed. Noting that the matter might be pursued in informal consultations, it was agreed that a study on computer services would be launched, provided the reservations were lifted (L/5660, paragraph 6; GPR/M/12, paragraphs 16-33).

At the September meeting the Committee noted that two Parties had submitted replies to the questionnaire on service contracts and that further replies were being prepared. Parties who had not yet done so were urged to submit their contributions as soon as possible. Reverting to the question of whether computer services might be included in the study, the Committee noted that the reservations expressed by three Parties were maintained. Some Parties expressed concern about the absence of agreement on computer services. One Party suggested that consultations be held before the next meeting aiming at reaching agreement on three further pilot studies in other representative service industries. The Chairman noted



that, in the absence of agreement, delegations were free to share information informally and three Parties indicated their readiness to do so (L/5684, paragraph 5; GPR/M/13, paragraphs 25-30).

G. SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

This matter was dealt with in a secretariat note (GPR/W/56/Add.2) circulated in the context of the Article IX:6(b) negotiations in an attempt to facilitate any further discussion of this question in the Committee. See also item F above. The two main subjects, i.e. (i) negotiations on entity offers by developing countries; and (ii) transparency, were also dealt with in GPR/W/56/Rev.1.

H. CONSULTATIONS AND DISPUTE SETTLEMENT (ARTICLE VII:3-10)

The report of the Panel on Value-Added Tax and Threshold was adopted by the Committee on 16 May 1984. A number of statements were made following the adoption. The report and the statements are contained in GPR/21. (See also under C above.)

Concerning the modification of Finland's entity list (see under D above), the Chairman referred at the June meeting to "Article IX:5(b) under which the matter might be pursued in accordance with the provisions of Article VII of the Agreement which, as he understood it, meant bilateral consultations under Article VII:3-5". (GPR/M/12, paragraph 61.)

I. PANELISTS (ARTICLE VII:8)

Names of persons available to serve on panels were supplied for 1984 by one EEC member State (the United Kingdom), Finland, Israel, Sweden, the United Kingdom for Hong Kong and the United States.

J. OTHER MATTERS DISCUSSED BY THE COMMITTEE

(i) Practical guide to the Agreement

At the February meeting the Committee agreed to establish a practical guide explaining the Agreement (L/5606, paragraph 6). The secretariat gave a progress report at the April meeting (L/5641, paragraph 4). In June the Committee agreed on an outline, giving the secretariat a certain latitude in the layout to be used; the Parties were invited to submit comments and additional information by 30 September 1984 (L/5660, paragraph 11). In September the Committee requested the secretariat to prepare a draft guide in time for it to be considered at the next meeting, bearing in mind points made by delegations, and, if necessary, to be in consultation with delegations during the preparation of the draft (L/5684, paragraph 8).

(ii) Question of nationalized enterprises

Suggestions by one Party concerning nationalized enterprises, including a possible definition of this concept, were commented upon at the April meeting (L/5641, paragraph 5; GPR/M/11, paragraphs 56-63).

[(iii) Third (1983) statistical review]

Pro mem.

[(iv) Adoption of 1984 report to the CONTRACTING PARTIES]

Pro mem.