

# GENERAL AGREEMENT ON TARIFFS AND TRADE

SR.41/1  
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## CONTRACTING PARTIES Forty-First Session

### SUMMARY RECORD OF THE FIRST MEETING

Held at the International Labour Office  
on Monday, 25 November 1985, at 3 p.m.

Chairman: Mr. F. Jaramillo (Colombia)

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### Chairman's opening address<sup>1</sup>

The CHAIRMAN, in opening the forty-first Session, said this was a crucially important Session of the CONTRACTING PARTIES. The current economic outlook was far less encouraging than it had been a year earlier. Although forecasters had expected only a moderate slow-down in world output growth for 1985, the current expectation was for lower growth than that forecast just a few months earlier, and the Secretariat's September forecast for growth in 1985 of less than four per cent had been scaled down to less than three. One reason for those lower forecasts was that economic growth in the United States, Japan and parts of South-East Asia, which had been the driving force behind the record trade figures in 1984, had slowed down more than expected. There had been little compensating improvement elsewhere, and unemployment in many parts of the world had remained stubbornly high or grown worse.

He said that in the past decade, there had been a sharp decrease in the responsiveness of world trade to increases in world income, both for total trade and for trade in manufactured goods, suggesting a serious deterioration in the health of the international trading system. World trade had grown more slowly in part because there had been less trade growth per unit of economic growth. Since 1973, there had been a definite movement away from the steady liberalization of trade policies which had promoted growth between 1950 and 1973. The present trend was towards protectionism, subsidization and managed trade. The CONTRACTING PARTIES' rôle in GATT was to ensure that this tendency was quickly reversed. The Secretariat's semi-annual reports on developments in the trading system

<sup>1</sup>See GATT/1376.

provided unmistakeable evidence of the continuing emphasis on managing trade through bilateral and sectoral arrangements, and of increased protection and subsidization in a number of sensitive areas. The most recent report (L/5915) listed 94 export restraint arrangements negotiated outside GATT, many of which had been in place for years. The report outlined new instances of subsidized agricultural export programs and further recourse to subsidized export credits, and noted difficulties in the area of dispute settlement in GATT.

On the positive side, implementation of Tokyo Round tariff cuts had been accelerated, some countries had taken unilateral market-opening measures and others had resisted powerful protectionist pressures. Nevertheless, present economic and political trends, if left to run their course, would be likely to have disastrous consequences. The trading system, which meant essentially the GATT, had been seriously undermined in recent years by ill-advised policy measures and by a growing crisis of confidence in the system itself, which had contributed to the growth of bilateralism and market sharing measures, and thus to the present threat to GATT.

Another serious threat was the possibility that trade policy would be made the scapegoat for failure to solve major problems in macro-economic management, in monetary and financial policy and in the crisis of indebtedness. However, there had been some encouraging developments; the September 1-5 meeting of the Finance Ministers of five industrialized countries<sup>1</sup> had shown a political will to address problems in the monetary field through co-ordinated action. While such action had to be sustained by necessary adjustments of domestic policies in order to be effective in the longer term, a first step had been taken towards correcting major distortions in currency values. The IMF/World Bank Interim Committee meeting in Seoul in October had shown a new determination to help alleviate the debt problem through increased institutional and private bank lending and a more imaginative and constructive approach to external financing. Emphasis had been placed on the debtor countries' need to expand exports in order to meet debt-service obligations and to secure adequate growth. He noted that the communiqués of those two meetings had referred positively to the prospect of a new round of trade negotiations in GATT. Given these developments, the lack of cooperative action in the trade field could not be blamed on disarray in related areas of economic policy; the inertia of trade policy makers in the face of an impending crisis was greater cause for concern.

The 1982 Ministerial meeting and the Work Program to which it had given rise, had shown the CONTRACTING PARTIES' awareness of the need for a major cooperative effort to restore the integrity of the GATT system and to move towards trade liberalization. A great deal of valuable work had

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<sup>1</sup> France, Germany, Japan, United Kingdom, United States.

been done, notably in the bodies set up in response to the Ministerial Declaration and in the thorough clarification of positions and views in the Senior Officials Group. For this work to bear fruit, the process had to be advanced to the point at which political commitment to renewed liberalization and to effective disciplines would inspire confidence for the investments which would provide future employment. A further step had been taken in September, when the CONTRACTING PARTIES in Special Session had agreed that a preparatory process on the proposed new round had been initiated; they had also undertaken to decide at the present Session, whether or not to establish a Preparatory Committee to prepare the basis for launching a new round -- a decision which would have crucial implications for the future of the trading system. The business world would be waiting for the outcome of this Session with more attention and concern than for many years past. He hoped that the CONTRACTING PARTIES would be able in the coming week to give a clear and coherent signal that GATT was capable of dealing effectively with the serious problems threatening the trading system, and that its member countries recognized how much their common interests outweighed their differences.

In concluding, he asked contracting parties to keep three points in mind. First, the international economic situation and the prospects for world trade were deteriorating, not improving. Second, in present circumstances, protectionist pressures were not going to diminish or be easy to resist indefinitely without support from GATT. Third, 1985 had seen a new willingness to seek co-ordinated and imaginative solutions to problems in the debt and monetary fields; while these actions would support the smoother operation of the trading system, they were not a substitute for badly needed improvements in that system. It was time for contracting parties to decide how to fulfil their own responsibility for the future of the system. The United Nations had declared 1986 to be the Year of Peace. It should be a year of peace in the GATT also -- and a year of endeavour and achievement as well. He asked contracting parties to work throughout the coming week in a constructive spirit and with the goodwill and co-operation that the world was expecting.

#### Adoption of the Agenda

The CHAIRMAN noted that the Provisional Agenda was contained in L/5885.

The Agenda was adopted.

#### Order of Business

The CHAIRMAN drew attention to the Proposed Order of Business circulated in W.41/1/Rev.1. This document gave an outline of how business during the session might be conducted, beginning with the presentation of reports by the Chairmen of the Council and of the Committee on Trade and Development.

He would, himself, draw attention to the reports of the Committees and Councils charged with implementation of the MTN Agreements and Arrangements. He would also present the report on Services and his report as Chairman of the Senior Officials Group.

He said that since some of the issues arising from Item 2 (Activities of GATT) would be closely related to issues arising from Item 3 (Report of the Senior Officials Group), it would seem preferable to consider those two items at the same time.

The CONTRACTING PARTIES approved the Order of Business as proposed in W.41/1/Rev.1.

#### Presentation of Reports

Mr. CHIBA (Japan), Chairman of the Council, introduced its report (L/5909), noting that the range and importance of the Council's activities over the past year testified both to the vital rôle that GATT played in the operation of the international trading system, and to the increasing strains on that system resulting from the aggravation of protectionist pressures. He then commented on the distinct categories into which the Council's work had fallen.

The first category was comprised of regular, recurring items of business such as waivers or reports under waivers, and work undertaken by standing bodies such as the Committee on Balance-of-Payments Restrictions, the Textiles Committee and the Consultative Group of Eighteen. In the same category could be placed individual items of an ad hoc nature such as various trade-liberalizing or trade-restricting measures.

The second contained items which had arisen under GATT's dispute settlement procedures, since it was in the Council that such matters first appeared and it was to the Council that they ultimately returned. He said it was clear that judicious use of the mechanism that GATT provided for dealing with disputes as they arose was critical to maintaining accountability and predictability in international trade relations. It was also evident that when efforts were being made to improve the dispute settlement procedures, such as by the recently established roster of non-governmental panelists (L/5906), contracting parties should resolve to respect the mechanism as a whole and to recognize the responsibility that its use entailed. The third category was comprised of items under the 1982 Work Program for which, in some instances, the Council had forwarded reports for appropriate action at the present Session.

The fourth category contained the wider debate on issues leading to a new round of trade negotiations. The long discussion in the Council during the summer of 1985 had touched on some basic issues relating to the functioning of the trading system, and the action needed to improve and

strengthen it. There had been a widely shared perception of the need to resist protectionism, to promote trade liberalization and to recognize GATT disciplines. Furthermore, the debate had served an important purpose in bringing home to contracting parties the dimensions of the challenge facing the GATT system.

He concluded by noting that in addition to those four categories, there was a fifth and special type of Council business which derived from the twice-yearly meetings held to review developments in the trading system and to monitor paragraph 7(i) of the 1982 Ministerial Declaration. This surveillance function had become increasingly important and its potential importance for the future was even greater.

Mr. HAMZA (Egypt), Chairman of the Committee on Trade and Development, presented its report (L/5913). He noted that in addition to the Committee's regular activities under its mandate and under the 1979 Work Program (BISD 26S/219), its work in 1985 had been concerned with continued implementation of the decisions taken by Ministers in November 1982 regarding Tropical Products and GATT Rules and Activities Relating to Developing Countries (BISD 29S/17 and 22).

As in previous years, the Committee had reviewed developments in international trade affecting the trade and payments position of developing countries. It had noted that while some developing countries had improved their trade performance, many others still faced acute economic difficulties. For a number of them, their level of external indebtedness remained a serious constraint on recovery and future growth. Even those countries which had succeeded in expanding their exports and sustaining general economic growth during the past few years were now faced with the likelihood of slower income and trade growth. There had been a generally shared perception of the need to strengthen and spread the recovery widely throughout the world economy, including to developing countries, in order to ensure the prosperity of all countries. It had been emphasized that a reduction in protectionism and an increase in the security and scope of market access could play an important rôle in achieving that aim.

The Committee had continued to review implementation of Part IV and the operation of the Enabling Clause (BISD 26S/203), through Part IV consultations with Canada, Switzerland, Australia and New Zealand, by reviewing protective measures affecting exports of developing countries in the Sub-Committee on Protective Measures, and through other discussions of trade policy measures in the Committee itself.

He drew particular attention to the Committee's recommendation to the CONTRACTING PARTIES that consultations with contracting parties to examine how individual contracting parties had responded to the requirements of Part IV, as provided in paragraph 1(a) of the Annex to the Ministerial Declaration (BISD 29S/22), be continued. The Committee's recommendation reflected a generally shared view among its members that those consultations had been a useful and effective way of reviewing the implementation of Part IV.

He drew attention to the Committee's continuing examination of developments in the trading system of particular relevance to the least-developed countries, and to the program of ad hoc consultations held by the Sub-Committee on Least-Developed Countries. Those consultations had been useful in helping to identify potential and actual trade barriers facing the exports of least-developed countries, as well as their trade-related technical assistance needs. The Sub-Committee had discussed a number of proposals for further action in favour of the least-developed countries in the light of the relevant 1982 Ministerial decisions. The Committee had also discussed the future of the Sub-Committee on Protective Measures with a view to achieving the multilateral improvements needed to allow the Sub-Committee to perform a useful rôle.

In the course of discussion on several agenda items at the Committee's meetings, reference had been made to the proposed new round of multilateral trade negotiations. Views expressed by members in this respect were reflected in the relevant notes on the Committee's proceedings as well as in its report to the CONTRACTING PARTIES.

In relation to the expansion of trade among developing countries, the Committee had taken note of the 12th annual report of the Committee of Participating Countries on the operation of the Protocol Relating to Trade Negotiations Among Developing Countries (L/5891).

He concluded by saying that the Committee had noted the usefulness of the Secretariat's technical assistance activities for developing countries. He hoped that these would continue to be strengthened so as to ensure more effective participation by developing countries in GATT.

The CHAIRMAN drew attention to the reports of the Committees and Councils charged with implementation of the MTN Agreements and Arrangements.

He then present the report on services (L/5911), submitted in accordance with paragraph 3 of the 1984 Agreed Conclusions (BISD 31S/15). He noted that, also in accordance with paragraph 3 of the Agreed Conclusions, he had informed the Council, at its meetings in July and November 1985, of progress made in the exchange of information on issues in the services sector. His report in L/5911 reflected the documentation submitted by delegations and the discussions based on that documentation which had taken place during the meetings on services held during 1985. Documentation prepared by the Secretariat on the work of other relevant international organizations had also been taken into account in those discussions. He drew particular attention to paragraph 8 of the report which described the nature of the work effected in the meetings on services. He suggested that in terms of the 1982 Ministerial decision (BISD 29S/21) and of the 1984 Agreed Conclusions, the CONTRACTING PARTIES would want to address the question of future action on services.

Finally, he drew attention to his report (L/5917) as Chairman of the Senior Officials Group and said that contracting parties would have the opportunity to discuss any matters related to this in the context of Agenda Item 3.

The meeting adjourned at 4.30 p.m.