

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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RESTRICTED

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## PREPARATORY COMMITTEE

### Record of Discussions

#### Discussions of 17-20 March

1. The Chairman noted that the matters for discussion at this meeting were listed in document PREP.COM(86)2. He recalled that the list of matters to be taken up followed the discussions which took place in the Senior Officials' Group and did not constitute an agenda adopted by the Committee. In regard to the question of the venue of the Ministerial Meeting, he said that informal discussions were still taking place.

#### STRUCTURAL ADJUSTMENT

2. The Chairman said that since the end of the Tokyo Round, structural adjustment had been examined in GATT as a specific topic in the Consultative Group of 18, in the Committee on Trade and Development, in the Working Party on Structural Adjustment and Trade Policy, and in the Council. It had also been taken up in the context of discussions on the safeguard issue. The Working Party on Structural Adjustment and Trade Policy had considered that the main contribution that the CONTRACTING PARTIES could make to the adjustment process would be to abide by their obligations under the GATT. It was not surprising, therefore, that the Working Party had recommended that other relevant GATT bodies take account, in their work, of the conclusions contained in the report of the Working Party. The fact that the concept of structural adjustment ran through the entire range of GATT activities, and that adherence to GATT disciplines contributed significantly to the adjustment process, would certainly be of relevance to the work of the Preparatory Committee. In this sense, the subject went to the heart of the Committee's work. He suggested that a basic objective of the forthcoming trade negotiations should be to promote worldwide the structural adjustment needed for growth. He invited members of the Preparatory Committee to consider how this perception could be reflected in the Preparatory Committee's recommendations.

3. The representative of Brazil said that his authorities would like to see the subject of structural adjustment and trade policy receive due attention in the context of the new round, not as an item for negotiation per se, but as a concept underlying the overall exercise of liberalization. As had been pointed out previously by developing countries, adjustment had to be seen as an integral part of the overall development process of national economies. As weaker partners in the global economy, developing countries were concerned with an optimal allocation of scarce resources and the need to ensure the

development of all sectors as far as allowed by their limited resources. International recognition of the constraints facing developing countries was at the root of specific provisions in the General Agreement which conferred special rights on the less developed contracting parties in assisting the promotion of the establishment of particular industries, and imparted upon developed contracting parties the responsibility for devising concrete measures to facilitate access for the products of industries thus developed. This approach to adjustment and development recognised not only that export earnings were vital for developing countries - and indeed this importance had only increased in light of the indebtedness of some of these countries - but also that the benefits of specialization through trade could only be enjoyed if the rules and principles underlying the multilateral trading system were respected. He said that structural adjustment from the viewpoint of the industrialized countries was less a function of development goals than a response to shifts in relative competitiveness, both domestically and internationally. This was at the heart of commitments by developed countries to pursue policies which would encourage producers to move resources out of sectors which were less competitive internationally and into more viable lines of production or into other sectors of the economy. In practice, however, such commitments had not been honoured. This was to the detriment of the open international trading system and, in particular, to the disadvantage of developing countries, who were denied the full benefits of their competitive edge in the few sectors where they enjoyed comparative advantage. While in theory governments preached continuous internal adjustment according to the operation of market forces, and advocated free and fair trade, they, at the same time, practiced government intervention at the border, often in complete contradiction with these terms. Import relief measures of an often discriminatory nature were resorted to by developed countries on the grounds that they were intended to provide for adjustment to new conditions of competition. In reality, however, entire sectors had benefitted for long periods from protective measures which had neither contributed to a transfer of resources to more efficient sectors internally nor permitted more efficient exporters, particularly those from developing countries, to reap badly needed benefits from trade in the few areas where they enjoyed comparative advantage. Attempts by developed countries to justify the maintenance of discriminatory restrictions in sectors such as textiles were perhaps the best example of an ambiguous attitude towards the adjustment problem which plainly concealed a reluctance to come to grips with it. Some representatives of developed countries had argued that the adjustment process in industrialized economies would improve if new areas such as services, not presently subject to GATT discipline, were provided more opportunities in international trade. This suggested that after being discriminated against for decades in certain sectors where they enjoyed comparative advantage, developing countries were now being asked to put at risk the fundamental development goal of diversifying their economies and providing remunerative employment for their rapidly growing populations in order to help improve the overall adjustment process in developed economies entering a post-industrial phase.

4. The representative of Canada said that it was difficult, and possibly counter-productive, to examine the question of structural adjustment in a vacuum. Structural adjustment was a continuing phenomenon emerging from a range of factors in the international environment, including trade liberalization, of which it was both a cause and an effect. Accordingly, structural adjustment should not be negotiated as a separate subject but

rather seen as an item for inclusion in the proposed declaration as a general objective for the negotiations. In the period leading up to the Ministerial Declaration, as well as in the negotiations themselves, a number of questions would emerge which were related to structural adjustment. Such questions might include, for example, the following: whether trade liberalization promoted positive domestic structural adjustment; whether structural adjustment should be an objective by itself or regarded as a positive consequence of negotiations; and whether positive structural adjustment was best achieved through the increased application of market forces and a limitation of government intervention. In Canada's view the answers to such questions would be clarified during the negotiations.

5. The representative of Australia said that unlike the Tokyo Declaration, the recommendations to Ministers should recognise explicitly that certain commitments to changes in national policies were necessary in order to achieve trade liberalization. It was important also to ensure that all nations benefitted from trade liberalization, particularly because there was an increasing tendency for trade to take place under arrangements which went beyond or were inconsistent with the General Agreement. The problem of structural adjustment for the major trading nations was even greater now than at the time of the Tokyo Declaration. In the light of these developments, the principles and language of the Tokyo Declaration would need to be reviewed and examined afresh. For example, it was not clear how the principles of "mutual advantage" and "overall reciprocity" might be applied in cases where there were severe imbalances in trade. It was difficult to see how the conditions of overall reciprocity and mutual advantage applied to cases where trade barriers had been in place in particular sectors over a period of time, and the concession was to re-establish the basis of liberal and non-discriminatory trade in those sectors. If the principles of overall reciprocity and mutual advantage were made overriding in such cases, negotiations in the new round would not be able to correct significant distortions in the trading system which had occurred over time. Moreover, the economic argument against mutual advantage and overall reciprocity was that these notions implied that no country would take trade liberalizing measures unless trading partners did the same. Such a position would ignore the fact that benefits accrued from trade liberalization independently of any additional benefits countries might receive from the trade liberalization of their trading partners. While there were doubtless good political reasons for making trade liberalization part of a coordinated international effort, it was important to avoid commitments to language which was outdated and which could be harmful to the trading system. He suggested that the Ministerial Declaration should contain the following four elements: a commitment by the CONTRACTING PARTIES to join in negotiations to promote world-wide structural adjustment needed for growth; a commitment by the CONTRACTING PARTIES to participate in negotiations on the basis of national benefits to be obtained by each contracting party through liberalization of barriers to trade; agreement by the CONTRACTING PARTIES that the negotiations should be based on common advantage, mutual commitment and benefit to all; agreement by the CONTRACTING PARTIES that respect for the most-favoured-nation clause of the General Agreement was a paramount principle.

6. The representative of Bangladesh endorsed the view that the concept of structural adjustment ran through the entire range of GATT's activities and was of crucial importance to the maintenance and expansion of the open multilateral trading system. It was clear that many major trading partners were reluctant to adjust and this had resulted in a significant loss of trade opportunities. A variety of import restrictions, originally introduced as temporary relief measures, had become permanent measures against imports from the more efficient producers. These went against the fundamental objective of GATT and the concept of an open multilateral trading system. Despite the useful work done by the Working Party on Structural Adjustment and Trade Policy, progress in facilitating structural adjustment had been less than satisfactory. There had been a tendency to transfer the burden of adjustment to the developing countries and weaker trading partners. This was a major impediment to growth in developing countries, including the least developed among them, and to the expansion of world trade in general. The establishment of a credible and enforceable surveillance mechanism was of crucial importance in ensuring that structural adjustment took place as the situation demanded.

7. The representative of Japan recognized that structural adjustment was an important theme in relation to GATT's rôle in promoting trade liberalization and ensuring the effective functioning of the international trading system. The report of the Working Party on Structural Adjustment and Trade Policy was useful and informative. Work done by this body had contributed to a better understanding of the nature of the adjustment process, the interaction between structural adjustment and international trade, and the rôle played by government policies in this field, and had provided a valuable basis for future work in this area. He emphasised that structural adjustment should, in principle, be an autonomous process undertaken through the market mechanism by industries attempting to respond positively to new situations. Trade and adjustment policies should reflect the principle of comparative advantage and promote structural change in industry and trade rather than inhibit or distort the process. In cases where structural adjustment entailed special difficulties for particular industries or ran the risk of endangering the overall industrial climate or infrastructure, policies such as reducing social costs and guiding the pace or direction of structural adjustment should serve to supplement the market mechanism. Structural adjustment was important in several specific contexts such as safeguards and textiles, and the contracting parties would have to address the subject in considering these matters in the new round. Japan was prepared to develop a common understanding on the subject with a view to providing a sound basis for the negotiations.

8. The representative of Argentina regarded the subject of structural adjustment as an umbrella covering the entire range of subjects for the proposed new round of negotiations. He noted that despite statements to the contrary, structural adjustment had not taken place autonomously in very many sectors in which trade distorting protectionist measures had been in operation for long periods of time. Most of the restricted sectors were those in which developing countries enjoyed comparative advantage and where protective measures affected more severely the trade of these countries. Sectors like agriculture and textiles were of major interest to developing countries in this context. As for agriculture, the proposed negotiations should lead to changes in the agricultural policies of certain major

contracting parties. Such modifications were essential for promoting freedom of competition based on comparative advantage in international trade in agriculture. For these reasons, he could not agree with the Japanese delegation that work relating to structural adjustment be limited to the industrial sector. In respect of textiles, he stated that one tangible way in which the developing countries would assess the sincerity of the developed countries in the proposed negotiations would be the extent to which they were prepared to see trade in textiles brought back within the disciplines of the General Agreement, and, consequently, the effectiveness of structural adjustment measures carried out in this sector. He hoped that measures taken as part of standstill and rollback commitments would facilitate the process of structural adjustment. A progressive rollback of restrictive measures would, for example, make it possible gradually to expose highly protected sectors to competition based on the principles of the General Agreement, including the most-favoured-nation clause. Inclusion of the concept of structural adjustment in the Ministerial Declaration should serve to emphasize the clear link which existed between the General Agreement and the principle of comparative advantage.

9. The representative of Norway, speaking on behalf of the Nordic countries, observed that a number of factors gave rise to adjustment pressures, international trade being one of great importance. The Nordic countries believed that GATT contributed to adjustment to the extent that it succeeded in promoting a stable and predictable trading system and discouraged the use of trade measures that could impede adjustment. In employing measures which had effects on structural change, governments should take into account their obligations under the GATT. It could, therefore, be argued that structural adjustment should be seen as a general objective of the new round of multilateral trade negotiations. The Nordic countries did not consider it feasible to address structural adjustment as a separate item in the new round, but kept in mind under individual areas, and hoped that the negotiations would lead to increased observance by contracting parties of their obligations under the GATT and to improvements in the trading system. The fulfilment of these aims would serve to promote and facilitate the process of structural adjustment.

10. The representative of Hungary stated that the relationship between structural adjustment and trade policy was too well known to require elaboration; the present state of affairs in international trade in agriculture and textiles spoke for itself. As the Leutwiler Report had noted, protectionist measures were almost always introduced to avoid structural adjustment. The main question to be addressed was how the relationship between structural adjustment and international trade could be translated into binding rules and disciplines. A sectoral (agriculture, textile, safeguards) and "effect-oriented" (effect of economic policy measures on trade) approach would make it easier to deal with problems in this area. In the meantime, contracting parties could no longer ignore the fact that transferring the burden of structural adjustment abroad implied heavy costs not only for efficient producers and consumers, but also for the multilateral trading system. Trade tensions presently in evidence indicated that urgent action was needed. For this reason, Hungary considered it necessary that contracting parties should commit themselves to refrain from exporting the burden of adjustment and to abide by their GATT obligations. This would ensure the promotion of adjustment on the basis of comparative advantage.

11. The representative of Jamaica listed a number of issues as being relevant in considering structural adjustment and trade policy from a GATT perspective: the effect of macro-economic structural adjustment policies on the formulation of trade policies consistent with GATT principles, i.e. removal of protectionist barriers; the influence, at any given time, of specific objectives of macro-economic policies (employment, inflation, balance-of-payments) on trade policies; ways of adequately addressing, within the framework of GATT, macro-economic policies and their inter-relationship with trade policies; recognition that micro-economic structural adjustment policies at the industrial and agricultural levels were as important as macro-economic policies. He recalled that in the early 1970's, structural adjustment had emerged as a major international trade issue following the collapse of the Bretton Woods fixed exchange rate system, changes in the prices and distribution of oil and other commodities, inflation, and changing patterns in the structure of production and trade. The deep recession of the early 1980's, and continuing deep-seated unemployment, were evidence of major structural maladjustment in the global economy. GATT's assessment had indicated that there had been a major failure to adjust in four large sectors of world trade - textiles and clothing, synthetic fibres, steel and automobiles. There were other sectors as well, including ship-building and electronics. He recalled the statement on structural adjustment made by his delegation in October 1978 in the Consultative Group of 18 (CG.18/8, paragraph 17). Jamaica had also circulated a draft code in which contracting parties, inter alia, would pledge their readiness to adjust to changes in the pattern of world production through the implementation of a concerted programme of action. The draft code also set out modalities for notification and consultation procedures at the sectoral level (CG.18/W/39). The proposal had been subsequently put to the Committee on Trade and Development (COM.TD/103). The Working Party on Structural Adjustment and Trade Policy had issued a report which was considered at the Ministerial Meeting in 1982, and it remained part of GATT's Work Programme. Despite these developments, very little tangible progress had been made. Structural adjustment was clearly a subject for discussion and/or negotiation in any new trade round. Specific questions to be considered in making recommendations to Ministers were: modalities for negotiations focussing on the micro-economic level (industry and agriculture); action to ensure market access in respect of the trade of individual contracting parties who were proceeding with structural adjustment with a minimum of trade distorting effects; and, to the extent feasible, the examination of actions, both public and private, which impeded autonomous structural adjustment within a clearly established set of guidelines formulated by contracting parties. Jamaica believed that these matters should be agreed upon at the time of launching a new round of trade negotiations.

12. The representative of the United States agreed with other delegations that structural adjustment was a key to solving many of the problems facing the trading system, including those in the areas of safeguards, agriculture, subsidies and other items on the Committee's agenda. A willingness to adapt to market forces underpinned the General Agreement. The need to create conditions to encourage adjustment in all countries would have to be kept in mind when negotiating agreements in various individual areas. In referring to an earlier observation by a delegation that structural adjustment should

apply to all sectors, he stated that the addition of services and investment in the context of the new round would add significantly to GATT's contribution to promoting structural adjustment. The report of the Working Party on Structural Adjustment and Trade Policy had shown that the movement of resources into the services sector was a major aspect of structural change. It was important for GATT not only to discourage policies which inhibited adjustment to trade liberalization but also to support policies which would foster more efficient economic development. The United States did not believe, however, that governments should involve themselves in the matter of choosing winners or losers. This was a process best left to the market place. Structural adjustment worldwide was to be seen as an underlying theme applying to many subjects of the proposed negotiations rather than as a separate issue by itself.

13. The representative of the Economic Communities said that structural adjustment was a permanent process in the national economies of their Member States. Individual sectors had to adapt to market forces, and this could sometimes mean that certain activities had to be phased out. He shared the view expressed by the previous speaker that there was increasingly a need to turn to the services sector to create jobs that had been lost in the more traditional industries. Trade liberalization in all sectors should be the aim of the new round of negotiations, and this would exercise a favourable influence on the process of structural adjustment. The European Economic Community had supported the new round for this reason. It was necessary, however, to respect two principles. Firstly, in market economics, governments could not intervene in economic operators' autonomous decisions. Secondly, the principle of national sovereignty and the independence of national economic policy-making must be respected. For most contracting parties, this implied that structural adjustment could not be a separate topic for negotiation, but rather a general objective to be kept in mind when discussing individual subjects proposed for negotiation.

14. The representative of India expressed concern that the subject of structural adjustment had become an item for permanent discussion but little concrete action in GATT. He agreed that structural adjustment should be looked upon as an objective or discipline underlying trade policy formulation. Previous discussions in the GATT had fully recognized the importance of the subject. However, it was clear that a mere reaffirmation of this recognition in a new Ministerial Declaration would not achieve much by way of facilitating the process of trade liberalization. It was also not enough to talk about structural adjustment as a general global process because in the past two decades or more the failure to facilitate structural adjustment in specific sectors had been a fact of life. Work in this area by contracting parties should accordingly include analyses of action taken or not taken to facilitate the structural adjustment process in specific sectors. He recalled the specific proposal made earlier by the Indian delegation which had, inter alia, emphasized the need for a sectoral approach in assessing and considering measures to facilitate the process of structural adjustment. It was important also to recognize that failure to adjust had affected important objectives and commitments collectively agreed by contracting parties under Part IV of the General Agreement. A sectoral approach to the problem of adjustment would bring out the failure of contracting parties to meet these objectives and commitments, which should be clearly reflected in the Ministerial Declaration when dealing with this

subject. He found it difficult to understand how the inclusion of new subjects that were outside the competence of GATT would facilitate discussion in the presence of glaring examples of traditional sectors like textiles in which structural adjustment had failed to take place. While it was correct that investment, multilateral aid flows, and development policies and objectives of individual developing countries were among several factors which might work to facilitate adjustment, it was clear that in the context of the Ministerial Declaration, contracting parties should focus on matters relevant and pertinent to the GATT. The real incentive for developing contracting parties to participate in the liberalization process would lie neither in declarations nor analyses but in concrete action in sectors in which the process of structural adjustment had been disrupted because of government intervention and trade policies adopted by the major trading partners.

15. The representative of Argentina questioned the view of some delegations that trade liberalization in new sectors like services was required to replace jobs lost in traditional industrial sectors. He referred to evidence in a recent UNCTAD study on structural adjustment (1008/Rev.1) that in sectors like agriculture and textiles, employment had actually increased in some industrial countries.

16. The representative of Czechoslovakia believed that contracting parties recognized the need for continuous structural adjustment in their national economies in order to achieve long term growth and development. The ability of a country to carry out structural adjustment in production and foreign trade would depend, however, on various factors such as the size of the country and the domestic economy, natural endowments, dependence on foreign trade, financial means, and the conditions of participation in international trade. Structural adjustment policies should also be encouraged at the international level, and this would require, above all, that the trading system and its rules functioned well and were responsive to evolving market conditions. Work in the GATT should continue through exchanges of information and discussion, along with analyses of the overall experience gained so far. Such a process would help to provide a better understanding of how specific trade policy instruments could facilitate or impede the structural adjustment process generally or in individual countries. An analysis of the relationship between developments in trade and production structures would assist in clarifying the causes and effects of structural adjustment and related problems.

17. The representative of Switzerland regarded structural adjustment as a necessary element in any dynamic economy. He believed the problem of structural adjustment could be viewed from several angles. It could, for example, be held that adjustment should be undertaken on the basis of comparative advantage as dictated by the market place. One aspect of adjustment related to the inter-dependence of national economies and in this sense concerned international markets rather than national markets. World markets, in turn, would react to adjustments taking place in individual national economies. The new round of negotiations should aim to promote the closer intergration of markets, thereby contributing to the facilitation of adjustment of national economies to each other. Adjustment should not be a subject for negotiation per se, but rather an overall theme underlying efforts aimed at further trade liberalization.

18. The representative of New Zealand considered that there were four objectives relevant to structural adjustment in the new round; to ensure that the commitment to trade liberalization was unqualified; to ensure that approaches to heavily protected and distorted areas of trade were geared to foster domestic adjustment; to strengthen institutional and surveillance mechanisms in a way that would bring domestic adjustment programmes and their impact on trade under fuller scrutiny; and to ensure that the liberalization and structural adjustment processes applied across the board to all sectors. He stated that these matters should be adequately reflected in the Ministerial Declaration.

19. The representative of Poland said that structural adjustment was nothing more than the rational allocation of resources based on economic criteria. It was essentially a result of the operation of the entire set of mutually inter-related economic and social policy instruments covering, inter alia, investment, employment and trade, including disciplines governing international trade. Accordingly, he believed that structural adjustment should be recognized in the new round of trade negotiation as an underlying concept behind specific subjects for negotiation rather than as a separate item.

20. The Chairman said that the secretariat would prepare a summary of the main points arising from the discussion in order to facilitate the Committee's further consideration of this matter. He also noted that some delegations had established a link between the question of structural adjustment and a number of specific areas of possible negotiation, as well as with the question of the objectives of the new round.

#### TRADE IN COUNTERFEIT GOODS AND OTHER ASPECTS OF INTELLECTUAL PROPERTY

21. The Chairman said that the report (L/5758) of the Group of Experts on Trade in Counterfeit Goods indicated a widely held view that there was a problem in this area requiring further international action. It was therefore necessary to examine the various approaches by which this could be organised, taking account of the different, and hopefully complementary, activities which might be pursued in other international organisations. Other aspects of intellectual property had been referred to by some delegations in their statements on the new round and it would be helpful to the Committee's discussions if those delegations could spell out in more detail what they had in mind.

22. The representative of the United States recalled that the report of the Group of Experts clearly established that trade in counterfeit goods was a major problem facing the world trading system, and that the work of the Group had laid a sound foundation for negotiations in a new round. His delegation, therefore, expected the issue to be taken up expeditiously and intensive negotiations to proceed from the outset, with the aim of curbing international trade in counterfeit goods while avoiding barriers to legitimate trade. Given the need for GATT to respond to problems in the trading environment as they arose, his delegation viewed as a key agenda item for a new round the better protection of intellectual property rights, including patents, trademarks, trade dress, copyright, mask works, trade secrets. Better protection would promote innovation, encourage more rapid transfer of the newest technologies and increase foreign exchange earnings

by promoting investment. It was therefore to the advantage of both developed and developing countries. GATT action in this area should complement current efforts at the national and international levels and, if necessary, go beyond existing international conventions. GATT had the appropriate legal and institutional framework to deal with the problems, including the machinery for ensuring transparency, notification, consultation, and dispute settlement, which were missing in other international fora.

23. The representative of the European Communities said that the Chairman's introductory remarks and the report of the Group of Experts illustrated growing recognition of the importance of the problem of trade in counterfeit goods. Clearly it affected trade in a number of sectors very significantly, even if the exact volume was difficult to determine with precision. Therefore, and given the work already undertaken in GATT, his delegation would find it remarkable, and unacceptable, if the GATT were now to ignore the issue. The Community looked to the GATT to reach agreement on broadly acceptable rules dealing with trade aspects of counterfeit. Negotiations could be without prejudice to the complementary work being carried on elsewhere, for example in the World Intellectual Property Organization (WIPO). The more general problem of protection of intellectual property aroused significant interest, but his delegation felt that it merited further discussion before a decision could be reached on how best to deal with it in the context of a new round.

24. The representative of Brazil regretted that the Chairman's opening remarks had not included either a summing-up of the discussions in the Senior Officials' Group or reference to the conclusions of the report of the Group of Experts as a whole and not only to a specific part therein. His delegation's views had been clearly expressed in the Senior Officials' Group and were reflected in paragraphs 15, 18, 20 and 24 of the report (L/5878) of the Group of Experts. To combat counterfeiting was primarily a matter of ensuring effective protection of the industrial property titles in force. This task was being accomplished within the framework of national and international industrial property systems. If remedial action were needed, the injured party, that was, any trade-mark owner or holder of other industrial property titles which had been counterfeited, could resort to the provisions of the Paris Convention and of other treaties administered by WIPO. Whether these provisions were sufficient to assure an effective protection was something to be discussed within the competent and appropriate forum, that was the World Intellectual Property Organization, which was entrusted in the UN System with the protection of intellectual property throughout the world and which was responsible for the administration, inter alia, of the Paris Convention. The report of the Group of Experts did not justify joint action within the GATT framework. On the other hand, the competence of WIPO had never been denied, and a decision was adopted by consensus in that organization at the last session of its Governing Bodies to start examining the means to combat counterfeiting. Much valuable time had already been lost on this question in GATT, at the expense of attention to liberalization in trade in goods, which was the only mandate of the organization. He recalled that the proposal for inclusion of this item on the agenda of a new round had provoked expressions of concern by the Ministers of Latin American countries who adopted the Caracas declaration in the context of SELA (Latin-American Economic System) in December 1985.

25. The representative of Canada supported the inclusion, in the agenda for a new round, of the subject of the trade-related aspects of intellectual property, including trade in counterfeit goods. In the longer term this was an issue of interest to all. The growing problem of trade in counterfeit goods required multilateral action to avoid the creation of new non-tariff barriers and the imposition of unilateral or bilateral solutions. It was appropriate for multilateral trade negotiations to address the trade-related aspects of and remedies to intellectual property questions. The outcome of the negotiations could be supportive of the activities of other international bodies. GATT had already cooperated successfully with other international organizations as demonstrated by the supportive and reinforcing rôle of the agreement on Technical Barriers to Trade to the activities of the ISO. His delegation also recognized the need for negotiations to take into account the interests of technology-importing countries by facilitating access to technology.

26. The representative of Argentina saw no need to repeat what had been said in the meetings of the CONTRACTING PARTIES and of the Senior Officials' Group. The protection of intellectual property was a matter of great importance for which an appropriate forum existed in WIPO. While the Group of Experts had agreed on the importance of the problem of trade in counterfeit goods, since this intellectual property problem was being addressed in WIPO, it was not possible to reach a conclusion on the competence of GATT in this field. Consensus had now been reached in WIPO on a plan of action for dealing with this matter and a solution, taking into consideration the interests of all, should be sought in that forum. His delegation could see no reason for extending discussions to other aspects of intellectual property. The decisions of the CONTRACTING PARTIES had always been confined to trade in counterfeit goods. The efforts of negotiating a new round should be focussed on topics specifically covered by the General Agreement. The addition of new topics would disperse efforts aimed at trade liberalization and could jeopardize prospects of finding solutions. He recalled that a decision of the CONTRACTING PARTIES had referred this matter to the Council, through which any proposed action should be channelled.

27. The representative of Cuba said that her delegation found the Chairman's introduction on this topic somewhat unbalanced. On various occasions her authorities had reiterated their position regarding trade in counterfeit goods. WIPO had full authority and competence to deal with this matter. That organisation was currently working on an analysis of the industrial property system both from a national and an international perspective. This exercise aimed to seek ways of strengthening industrial property rights, as a means of combating counterfeit. She recalled that at their last session the CONTRACTING PARTIES to GATT adopted a decision which instructed the Council to consider this matter, having regard to the 1982 Ministerial Decision. The reason for this decision was that the working party established to address this question failed to reach any satisfactory agreement regarding multilateral action which some countries considered should be taken within the framework of the General Agreement. There were still serious doubts that it would be possible to agree to include this matter in any future round of negotiations. Finally, she said that her country had supported the declaration adopted in Caracas last December by Ministers of the Latin American Economic Council concerning this and certain other issues.

28. The representative of Hungary acknowledged the recent increase in trade in counterfeit goods and the damage it might do to the legitimate interests of some contracting parties. Given the work of the Group of Experts this subject could be included in multilateral trade negotiations, with the aim of elaborating appropriate multilateral disciplines. However, this was not a priority for his delegation. An important precondition for any effective work in GATT would be to draw a clear distinction between its competence and that of WIPO in this field.

29. The representative of Switzerland stated that, while it might not be possible to determine the exact magnitude of the problem, counterfeiting and its effects on international trade were increasing. Unilateral efforts to combat trade in counterfeit goods might lead to the creation of new barriers to trade. The matter was, therefore, of concern to and within the competence of GATT and of future negotiations with their overall objective of trade liberalization. Work in GATT would not conflict with work in other organizations, in particular WIPO, but would complement it, in so far as WIPO was not competent to deal with trade matters. His delegation felt that this should be an important part of future negotiations.

30. The representative of Japan stressed that trade in counterfeit goods distorted the market mechanism and comparative advantage, and also endangered human life. This was a world-wide problem. Under present circumstances there was often no alternative to the introduction of unilateral measures which constituted potential barriers to trade. Thus it was necessary to ensure transparency and develop a dispute settlement mechanism. Multilateral action was required to find a solution that would not restrict legitimate trade. His delegation therefore believed that the matter would best be dealt with in a new round, in cooperation with other relevant organizations. The recent increase in trade in technology and its products created a pressing need to solve any problems that might hamper its continued expansion. These included incompatibilities between national legislations on intellectual property rights, abuse of import restrictions for the protection of intellectual property rights and the non-existence of rules for protection in new fields of technology. The trade aspects of these problems had not received sufficient attention and should be further examined in the GATT for the benefit of both developed and developing countries.

31. The representative of Finland, also on behalf of the Nordic countries, stressed three points which had lead the Nordic countries to look at this problem as one of the issues which could be taken up in the new round. First, as was clear from most statements in the Senior Officials' Group, trade in counterfeit goods had become a major problem in world trade. Second, for fear that unilateral measures might create new barriers to legitimate trade, action needed to be multilateral. Third, GATT was the appropriate forum for trade matters. However, work in this area in other international bodies, especially WIPO, should be taken into consideration. The Nordic countries felt that, in future work, consideration should be given to counterfeiting affecting not only trademarks but also other forms of intellectual property rights such as design.

32. The representative of India recalled the position of his delegation in the SOG as well as when the report of the Group of Experts on Counterfeit Trade was adopted. He pointed out that the Ministerial Declaration of 1982 had stipulated that in addressing this subject full recognition be given to the competence of other international organizations. He associated his delegation with the views expressed by Brazil and Argentina. The question of the competence of WIPO was indeed relevant since that organization had, in 1985, decided to take up the matter. He expressed surprise that those contracting parties that had raised the subject in GATT in 1982 had, while being members of WIPO, waited three years before taking it up in that forum. Work in GATT should not conflict with that being undertaken in other international organizations. But while work in WIPO was only just beginning, to take up the issue in GATT would prejudice rather than complement it. Complementarity should be sought in the proper perspective, given that the competence of WIPO had not been put in question. In the context of dealing with the trade-related aspects of counterfeiting he drew attention to provisions of Article XX of the General Agreement, which stipulated that measures should not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Together with the provisions on consultation, dispute settlement, etc. this meant that the opportunity to seek redress against such arbitrary action or barrier to trade under the General Agreement already existed. The inclusion of all other aspects of intellectual property as proposed would take the discussion even further away from the basic considerations of the competence of relevant international organizations, of economy of effort and of addressing the most pressing tasks in the relevant organizations. His delegation remained firmly opposed to the idea of precipitately entering into discussions on possible joint action before reaching a clear understanding on the mandate and competence of the relevant international organizations.

33. The representative of Zaire outlined the importance of the problem of counterfeiting and trade in counterfeit goods and the threats the latter posed to the stability of international trade. Measures adopted by individual governments in this area were not sufficient to combat the problem on an international scale. This required multilateral action based on broad agreement among contracting parties. Such action could only be defined in the context of negotiations. His delegation would not be opposed to the inclusion of the subject in future negotiations. However, the Preparatory Committee should define the scope of any GATT negotiations with due regard to the competence of WIPO and with the object of avoiding competition between the two organizations. International action should aim at the adoption of national legislation on counterfeiting and at strengthening the powers of customs administrations.

34. The representative of the United States stated that the existing provisions of Article XX, as well as of Articles XII and XVIII, left no doubt as to GATT competence to deal with the trade aspects of commercial counterfeiting. WIPO's clearly distinct competence was to deal with the establishment of minimum international legislation for the protection of industrial property. The Customs Co-operation Council was competent to ensure that any measures adopted to discourage international trade in counterfeit goods which required the intervention of customs officials were consistent with CCC rules and policies. All of these organizations were working on the problem within their own spheres of competence. Because of growing problems in the trade aspects of intellectual property, GATT should spell out in greater detail the obligations and rights in this area.

35. The representative of the European Communities feared that, while there was a clear recognition of the need for action in this area, the argument over competence was being used to delay action. There was in this area a proper rôle for the GATT without substituting for the WIPO. The Community did not wish to see the GATT used merely in confrontations under Article XXIII, in relation to the provisions of Articles XX, XVIII or XII. The GATT should now aim to pre-empt confrontations by means of an agreement that would obviate the need for recourse to dispute settlement.

36. The representative of India recalled that the reference to Article XX had been made by his delegation at the last CONTRACTING PARTIES' Session. The question of competence of relevant international organizations was not being raised to delay consideration of this subject. However, this issue should be dealt with in the appropriate forum, particularly in view of the growing feeling in WIPO that its competence and effectiveness might be undermined by initiatives in other fora. It was the responsibility of national governments to administer laws to combat trade in counterfeit goods. What was required on an international level was to ensure that this was done in a fair and appropriate manner, and, in the area of counterfeiting and intellectual property, this was within the competence of WIPO. The relevant forum to discuss action by the customs authorities was The Customs Co-operation Council. To extend the GATT in this area would not be of service either to individual contracting parties or to the GATT itself.

37. The Chairman said that the secretariat would consider whether it would be useful to prepare some notes as a basis for the next discussion of this subject.

#### EXPORTS OF DOMESTICALLY PROHIBITED GOODS

38. The Chairman noted that the 1982 Ministerial Declaration had called on contracting parties to notify to GATT to the maximum extent feasible any goods produced and exported by them but banned by their national authorities for sale on their domestic market on grounds of human health and safety. He said that by the time of the 1984 session of the CONTRACTING PARTIES twenty-three notifications had been received, but the CONTRACTING PARTIES did not consider that these notifications provided an adequate base to assess how problems relevant to the GATT might be studied, and a second request for notifications had been issued. Fifteen more notifications had since been received. In his view the consultations held so far had revealed a growing feeling that the GATT could have a role to play in the trade aspects of regulation of dangerous products. The need for action by both importing and exporting countries had been stressed, as had the complexity of the issues involved and the need to avoid duplication of work going on in other organizations. Further informal consultations were to take place, and might lead to concrete suggestions regarding a possible rôle for GATT in this field.

39. The representative of Chile said that this issue essentially concerned the importation, rather than exportation, of products whose sale was prohibited in the country of origin. When the sale of a product was prohibited in the exporting country, import prohibition would be in conformity with accepted legal practice. Article XX of the General Agreement provided for the non-discriminatory application of trade restricting measures introduced to protect public morals and health and for other reasons.

Moreover, addressing this issue in relation to imports made it possible to accommodate those situations in which, for particular reasons, there was no desire to prevent the importation of goods whose sale in their country of origin was prohibited. On the other hand the real difficulties arose from the export of dangerous medicaments and other chemical products, where consumers in importing countries were put at risk. A genuine difficulty which arose was that the authorities in many developing countries did not know that an exporting country had prohibited a product on its domestic market. In view of this, the GATT might be able to perform a useful rôle in disseminating information.

40. The representative of Zaire said that the informal consultations had not advanced the consideration of this issue very far. It was complex, and should not be included in the negotiations without a prior clarification of the issues involved and the way they would be addressed in negotiations. Very few developing countries had legislation for dealing with this kind of trade and that was why it was important to explore the possibilities of international action. As a first stage arrangements could be made to cover only pharmaceutical and chemical products. A notification system could be established, which would help developing countries to find appropriate ways to deal with imports of goods prohibited from sale in the country of origin. An additional question was whether the rôle of the secretariat should be limited to disseminating information. This question could be addressed during the negotiations. In preparing for the negotiations, it would be useful if the GATT secretariat were to collect available information on lists of prohibited products drawn up by international organisations such as the World Health Organisation, by consumers' organizations and by other bodies. He noted that several delegations had referred to the possibility of the GATT undertaking work in this and other fields which was complementary to that done by other international organizations. If the GATT concentrated on the trade aspects of such issues, there was no reason to assume that there would be a duplication of effort.

41. The representative of Sri Lanka said that the notifications received to date could provide the basis to assess and identify what might usefully be done in the GATT in the area of exports of domestically prohibited goods. Cooperation with other agencies in this regard could assist in a clearer delineation of GATT's rôle and the avoidance of duplication. Action by both importing and exporting countries was necessary to deal with the problem. In accordance with Article XX of the General Agreement, both importing and exporting countries could take measures against hazardous or unsafe products in order to protect human life and health. Developing importing countries, in particular, lacked the means to carry out adequate and effective surveillance of such imports. They needed timely and comprehensive information from the authorities in the exporting countries if they were to regulate imports of hazardous goods. Publicity given by exporting countries to domestic prohibitions was at present limited. Furthermore, national legislation in these countries was also inadequate in meeting the problem. The GATT's involvement in the search for solutions could lead to a multilateral framework or code which would establish guidelines for measures to be adopted by both importing and exporting countries. This subject could be dealt with either in the negotiations or under the normal GATT process.

42. The representative of the European Communities said that his authorities supported initiatives to provide better information on regulations affecting the export of domestically prohibited goods. The Community was conscious that there were genuine difficulties in this area, and there would be discussions in various Community institutions in the coming months on how best the Community could respond to problems arising from the export of dangerous goods. He did not exclude the possibility of a rôle for GATT in this field, but questioned whether it was better to address the matter in the normal course of GATT's work rather than in a negotiation. If there was a rôle for GATT, then clearly it would be in conjunction with other organizations which were already active in this area.

43. The representative of Brazil said that further work was required to determine whether there was a possibility for joint action by exporting and importing countries in this field. Experts who had studied this subject in various fora had concluded that such action was needed and feasible. In particular, the balance of rights and obligations between exporting and importing countries with regard to trade in dangerous products required careful consideration. This would help to define the responsibilities of exporting and importing countries and their respective rôles in addressing the problem. GATT should continue to explore this subject in order to define what its contribution, if any, might be. GATT should thus avoid duplicating efforts by developing mechanisms of coordination with these organizations, while keeping in mind its mandate and the trade objectives forseen in the 1982 Ministerial Declaration. One of the priority requirements in this area was a greater degree of transparency, so as to shed light upon the real problems involved. Any multilateral approach would be supplementary to national initiatives aimed at exercising greater control over dangerous goods. Finally, the GATT might examine ways of facilitating technical cooperation between exporting and importing countries in order to enable the latter to develop the infrastructure required to identify hazardous goods.

44. The representative of Sweden, speaking on behalf of the Nordic countries, said that a central need in this area was for information on the dangers or effects of certain domestically prohibited goods which were exported. The Nordic countries attached great importance to product safety, consumer protection and related matters. Several competent international organizations were involved in this area, including FAO, WHO and UNEP and they had established information networks to which the Nordic countries contributed. The Nordic countries would welcome more effective use of these information networks, which would facilitate the task of national authorities in preparing appropriate actions by their governments. The exchange of views between delegations in the GATT, and the work carried out by the secretariat on the basis of the 1982 Work Programme, could be continued in order to bring further clarity to these matters. This would help to determine what, if any, actions should be taken in GATT, and whether any negotiations were required in this area. Any further work should be coordinated with activities in other international organizations, and should focus on problems falling within the GATT's field of competence.

45. The representative of Bangladesh said that this subject was important to many developing countries. However, progress achieved in this area had been less than satisfactory. A number of goods, including pharmaceuticals and drugs, pesticides and other chemical products, which had been prohibited in the producing countries, were being exported to developing countries without any hindrance in spite of the fact that they had proved to be hazardous to human health and safety. In certain cases these products were exported under unrecognizable trade names. Although a notification process had started, it had yet to develop into a useful information source for the countries affected. The developing countries to which these products were exported often lacked the facilities to exercise adequate import surveillance and most of them did not have the necessary mechanisms to seek compensation in case of injury or damage resulting from the consumption of such products. The GATT secretariat could play a more active rôle by seeking relevant information from organizations such as UNEP, WHO, FAO and ITC and disseminating it to contracting parties. The contracting parties involved in the export of goods banned in their own countries could, for their part, tighten their own regulations. Further studies should be made in GATT as to how more effective action might be taken against exports of domestically prohibited goods. This subject should be addressed adequately in the new round.

46. The representative of the Côte d'Ivoire said that from a moral point of view, it was regrettable that some firms were dumping domestically prohibited goods on third country markets, thereby jeopardising human health and safety. This practice was widely spread in the trade of pharmaceutical and chemical products, and was difficult to control, particularly in developing countries. The problem could be examined in GATT in so far as products which were illegal or of doubtful quality competed on a given market with other products which met recognized standards. On the other hand, the notifications requested by GATT had not led to satisfactory replies. This confirmed the thesis that trade in these products was conducted outside normal trade networks. It would be desirable for the GATT to examine this question very seriously with a view to setting up a surveillance body. The task of such a body would be to gather information on the nature of these products and to pass this information on to importing countries which did not have adequate information sources themselves. The surveillance body would also receive complaints and report to the CONTRACTING PARTIES or to any other appropriate GATT body.

47. The representative of Tanzania said that this subject was of utmost importance as it affected the health and safety of consumers. There was an increasing volume of trade in products which were prohibited in their countries of origin. Many developing countries lacked the regulatory or administrative framework to prevent imports of such products. There were plenty of examples of hazardous products being "dumped" in foreign markets. A related question was that of the inconsistency of information provided to consumers in different countries. Several international bodies had already voiced concern over increasing trade in hazardous products. In this connection he cited the activities of the WHO and of the International Organization of Consumers Unions (IOCU). These activities included the identification of hazardous drugs, educational efforts and campaigns against dumping of hazardous products. He said that within its sphere of

competence, the GATT could play a decisive role in mitigating the effects on developing countries of trade in these products. The current GATT notification system was a good beginning, but there was room for further improvement. The provisions of Article XX could be used as a basis for regulating trade in hazardous products. He expressed the hope that the new round would adequately address this issue and that agreement could be reached on concrete measures which would supplement the efforts of other international organizations.

48. The representative of Switzerland said that his authorities were aware of the problem of trade in hazardous goods and were prepared to examine it in the course of the negotiations, and to seek ways of complementing the work being done by other international organizations within their own fields of competence. He referred to the link between this subject and certain aspects of trade in counterfeit goods. He said that he saw no reason why the possibility of undertaking in GATT work which was complementary to that of other international organizations could be contemplated in the case of trade in hazardous goods but opposed in the case of trade in counterfeit goods.

49. The Chairman said that the Committee would revert to this matter at a later stage and that in the meantime account would be taken of this debate in preparing for the next consultations.

#### TEXTILES AND CLOTHING

50. The Chairman said that the importance of textiles and clothing for the trade of contracting parties and for their future trade relations needed no emphasis. In 1982, Ministers agreed that there should be an examination of the modalities of further liberalization in textiles and clothing, including the possibility of bringing about the full application of GATT provisions to this sector of trade. Since then, the discussions on textiles and clothing had been proceeding in three fora: (a) the Working Party on Textiles and Clothing to which the task of carrying out the examination referred to in the Ministerial Declaration had been entrusted. The Working Party had been unable to reach common views on modalities for trade liberalization. It had, however, noted the general recognition that the provisions of GATT should ultimately apply to international trade in textiles and clothing, although in the view of some participants certain conditions would need to be met; (b) in the Preparatory Committee, the point had been made that any commitment on standstill and rollback should apply to all sectors of trade, including textiles and clothing; (c) in the Textiles Committee, negotiations had been proceeding on the future of the MFA and whether it should be renewed, modified or discontinued at the end of July 1986. He noted that operational decisions on the future of the MFA had to be taken at about the same time that the Preparatory Committee produced its recommendations on a programme of multilateral trade negotiations for adoption by Ministers. It was against this background that the Committee would need to consider the treatment of textiles and clothing in the negotiations. There were three relevant points

to be made in this regard: (i) that the contracting parties could not isolate the textiles and clothing sector from the general effort to liberalize trade and improve the functioning of the trading system; (ii) nevertheless, operational decisions about the future of the MFA had to be taken by the end of July and before the process of multilateral trade negotiations was underway, and (iii) that any improved GATT disciplines resulting from the trade negotiations should be capable of being applied to textiles and clothing as to other areas of trade.

51. The representative of Korea referred to reports that the United States had asked Hong Kong, Taiwan and Korea to freeze textile exports to the US at 1985 levels for the next three years. This request had aroused widespread concern and had been rejected by Korea. He said that the basic objective of the three tracks of discussions or negotiations presently taking place in GATT was identical; namely the further liberalization of trade in textiles and clothing. He emphasized the need for consistency in the three tracks of discussions.

52. The representative of the European Communities said that the question of how and under what terms textiles and clothing should feature in the new round of negotiations was still open. Trade in textiles and clothing was a difficult issue which in the past had given rise to many disagreements based on abstract or unrealistic ideas, rendering the question very delicate. Contracting parties should seek to avoid repetition of these conflicts as they discussed the subject. According to figures published by the GATT secretariat, the index for total world trade between 1980-81 rose from 100 to 113, for manufactures from 100 to 121, and for clothing from 100 to 125. These figures tended to belie some of the criticisms of the MFA and its effects on trade. It was of course arguable that in the absence of the MFA, the index for clothing trade might have been even higher. However, if the MFA were to disappear overnight, there was a real risk of its being replaced by a "jungle" of safeguard measures within and outside the GATT. The Community was willing to play a constructive rôle based on common sense. The new round could not be undermined directly or indirectly, so it was ready to make a realistic and positive, though not exorbitant, contribution in the textiles field. Neither the Community nor any other contracting party could contest the validity of the ultimate goal of liberalizing trade in textiles and clothing, with a view to making it feasible for this trade to expand. However, this could not be done overnight. The EC was ready to grapple in the new round with elements making achievement of this objective possible, but this had to be done on a give and take basis if success was to be achieved. It was open to all contracting parties to examine together in the course of the new round the elements which would make it possible to liberalize progressively trade in textiles and clothing. If such a common goal existed, then there would be no problem for the Communities in participating in this venture.

53. The representative of Egypt said that his delegation attached great importance to the subject of textiles and clothing, which should be one of the main subjects for discussion in the proposed new round of negotiations. After more than two decades, it was high time for the derogation from GATT represented by the MFA to come to an end. The commitment taken by developed contracting parties in paragraph 7(viii) of the Ministerial Declaration of 1982 meant that the application of the GATT to this sector would be necessary after the expiry of the 1981 Protocol of Extension at the end of July 1986. It was important that negotiations should be intensified in the Textiles Committee for the phasing out of the MFA. Any commitment on standstill and rollback should be applied to all sectors of trade including textiles and clothing. There was a close link between textiles and clothing and various other subjects such as safeguards, standstill and rollback, tariffs and special and differential treatment for developing countries, as had been pointed out by developing countries in relation to the objectives and modalities of the proposed negotiations.

54. The representative of Pakistan said that textiles and clothing was crucial for his country in terms of employment and export earnings. Trade in textiles was basically a microcosm of all problems and issues raised in the context of the new round of negotiations: almost all the subjects discussed so far in the Preparatory Committee had some bearing on textiles. Special arrangements for international trade in textiles had been in existence for over a quarter of a century and the time had now come to address the problem of how to put an end to this system. The degree of progress made in the Textiles Committee should be a measure of the desire to work for a new round of multilateral trade negotiations aimed at a general liberalization of world trade. The possibility of holding a new round of negotiations presented an historic opportunity to abolish an inefficient and unfair system which had stifled the growth of developing countries and which was inconsistent with the principles of GATT. It was to be hoped that developed contracting parties would demonstrate the necessary political will to seize upon this opportunity in order to attract developing countries to participate in the new round of negotiations.

55. The representative of Bangladesh agreed with those who spoke of the need for significant liberalization in textiles and clothing in order to make any global negotiation on trade liberalization meaningful. This was particularly important to developing countries, especially the least developed among them, many of whom depended critically on the textiles and clothing sector for their export earnings and overall development. He expressed concern at the increasingly restrictive implementation of the Multi Fibre Arrangement, which regulated the comparative advantage achieved by many developing countries in the production of textiles and clothing. These problems had been exacerbated by the proliferation of legislative and administrative arrangements in certain developed countries which created new restrictive barriers for the developing countries. The Ministerial Declaration of 1982, in its paragraph 7(viii), had called upon contracting parties to undertake measures aimed at

liberalizing trade in textiles and clothing, including the study of the possibility of eventual application of GATT rules after the expiry of the 1981 Protocol. However, many of the major importing countries had not taken these commitments seriously. He recalled the commitment to give special consideration to the problems of the least-developed countries, and in particular the provisions in paragraph 3 of the Annex to the Ministerial Declaration, which specifically requested contracting parties to provide the fullest possible degree of duty-free access and to eliminate or reduce all non-tariff measures affecting products of export interest to the least-developed countries. Developed countries should undertake a categorical and unconditional commitment to the full application of GATT rules as a first step for any meaningful negotiation. The process of liberalization and application of GATT rules would naturally take into consideration the provisions of Part IV and the special needs of the least-developed countries. The standstill and rollback commitments should be fully applicable to textiles and clothing and a concrete time-bound programme of liberalisation should be adopted, with an adequate surveillance mechanism to ensure proper and timely implementation of the commitments.

56. The representative of Brazil said that he considered the issue of international trade in textiles and clothing as particularly relevant to the task of the Preparatory Committee insofar as it provided an opportunity for contracting parties to demonstrate their willingness to create appropriate conditions for strengthening the multilateral trading system through a new round of trade negotiations. It would be impossible to envisage a new round of MTNs without a clear indication on the part of interested governments that they were prepared to engage in meaningful discussions about liberalization of world trade. This could be achieved, as early as July 1986, through the adoption of concrete steps designed to bring about the full elimination of restrictions presently applied under the MFA. The existing régime governing trade in textiles, being a derogation of the GATT, a temporary departure from the principle of Most-Favoured-Nation Treatment, should be radically modified when it expired, thus setting an example for progress in other sectors. The very fact that for more than two decades developing countries had faced an increasingly discriminatory and restrictive set of rules which had been repeatedly renewed and expanded in scope should be sufficient to encourage "bona fide" trading partners to abandon this seeming attempt to perpetuate protection for non-competitive textiles and apparel industries. A standstill in the textiles sector would not of itself eliminate the discriminatory character of the present régime and a rollback should also be envisaged within a short time frame. At the same time, GATT disciplines would be undergoing a process of reinforcement, and this would ensure the full return of the textiles régime to an unambiguously improved GATT. Brazil still held this view and firmly believed that effective liberalization required the implementation of measures that not only blocked the possibility of introducing new restrictions outside GATT rules and principles, but also contributed to phase out those in existence. The first priority in this area should be the elimination of discriminatory restrictions. It had been argued that the negotiating process regarding the future regime for trade in

textiles should be conducted in isolation from the Preparatory Committee because prevailing economic circumstances recommended the maintenance of a separate multilateral framework for trade in a sector which had not succeeded in overcoming its difficulties. While it was difficult to accept the suggestion that a return to the normal rules of the GATT might lead to uncertainty in trade, he expressed surprise and concern over the fact that yet another extension of the MFA was being sought on the grounds that the developed importing countries needed additional time for the completion of an adjustment process. Surely importing countries could not expect developing country exporters to continue to accept, after more than two decades of discrimination, that the burden of adjustment would be transferred to them.

57. The representative of India said that he looked upon the question of trade in textiles and clothing in the wider context of the new round of negotiations that had been proposed by some contracting parties in order to preserve and strengthen the multilateral trading system. In his view, the one concrete action which would go a long way to preserve and strengthen the multilateral trading system was to submit trade in textiles and clothing to normal GATT rules. When the special system for textiles and clothing was created, there was no compensation given to those whose rights under the GATT were compromised. Now, after twenty-two years, there could be no question of any quid pro quo being sought for dismantling this special system. If there was a desire to involve a large number of the developing countries in the exercise of preparing for the new round of negotiations, it should be understood that actions taken in this sector would largely determine these countries' participation in the exercise of liberalization. It was of utmost importance for contracting parties to take this opportunity to prove their faith in the multilateral trading system by applying the principle of non-discrimination and by removing the quantitative restrictions on textiles and clothing. Liberalization would not be achieved by the renewal of a discriminatory arrangement, but by phasing out that arrangement.

58. The representative of Indonesia said that arrangements governing trade in textiles and clothing trade after July 1986 would be negotiated in the Textiles Committee. She believed that these negotiations would result in an arrangement more liberal than the present one, including in its operational aspects. She also believed that it would be possible to incorporate into the arrangement a phase out programme which would bring trade in textiles and clothing back under the disciplines of the General Agreement. If the Textiles Committee succeeded in negotiating a more liberal arrangement, then it would serve notice that derogations, however deeply rooted, could be eliminated if the political will to do this existed. The current negotiations in the Textiles Committee should not, however, exclude the consideration of the textiles and clothing issue in the new round of multilateral trade negotiations, within the larger context of strengthening the disciplines of the multilateral trading system.

59. The representative of Hungary said that one of the main objectives of the new round of negotiations should be the reaffirmation of the principle of non-discrimination. Sectors not currently subject to GATT discipline should be brought within the ambit of the GATT. These objectives should inspire the negotiators in the Textiles Committee. No compensation should be sought for the elimination of restrictions under the MFA: importing countries had been exempted from the obligation to apply GATT rules for over twenty years without giving any compensation to exporting countries. He added that one of the aims of these negotiations should be a substantial reduction of the generally high tariffs applied in this field. The standstill and rollback commitments in the Ministerial Declaration should also apply to this sector without any reservation.

60. The representative of Czechoslovakia said that the MFA was a major derogation from GATT, whose objectives of orderly development of trade and gradual liberalization had not been fully achieved. Furthermore, a number of new restraints not justified under the MFA had been introduced lately, both within the bilateral agreements and unilaterally. However, taking into account the deterioration of world economic conditions and increased protectionist pressures, especially in trade in textiles and clothing, Czechoslovakia believed that the MFA regime had played a rôle in stabilizing and expanding trade in textiles and clothing. All restrictive trade measures effecting international trade in textiles which were not in conformity with the MFA should be removed. The final objective should be gradual liberalization of trade in textiles until it was brought fully under GATT. A timetable for this could possibly be agreed within the framework of the next round of multilateral trade negotiations.

61. The representative of Canada said that in recognition of the importance and the sensitive nature of trade in textiles and clothing, multilateral action over the past years had been guided by the need to achieve an expansion of trade in an orderly and equitable way while avoiding the disruptive effects long associated with the trade in these products. In general, these aims had been achieved under the MFA and its Protocols of Extension, and it was Canada's view that a further extension, on terms to be negotiated, was the most appropriate way to ensure the continued pursuit of these objectives. Canada was prepared to join others in an examination of trade in textiles and clothing in the new round, in the context of market access liberalization. Among the objectives for negotiations in this area might be a further reduction in tariff and non-tariff barriers and the progressive liberalization of world trade generally in these products.

62. The representative of Sri Lanka said that textiles and clothing was the only manufacturing industry of any size in the Sri Lankan economy, accounting at present for nearly 20 per cent of total export earnings. The Ministerial Declaration of 1982 embodied a commitment to pursue measures aimed at liberalization of trade in textiles and clothing, but little or no headway had been made in this regard. On the contrary, there had been a further intensification of restrictions under MFA III through the extension of country and product coverage. These restrictions had fallen most heavily on

small suppliers and new entrants such as Sri Lanka. Though the rights of these countries to special treatment were recognized in the MFA and its Protocol of Extension, they had largely been disregarded in practice. Progress in securing liberalization in trade in textiles and clothing was the yardstick by which the credibility of the proposed new round would be judged. He noted that negotiations in the Textiles Committee were to be conducted independently from the preparatory process for the new round. There should be no false linkages or demands for reciprocity in this field. Work on the implementation of the 1982 Ministerial Work Programme in relation to textiles and clothing could continue in parallel with the work of the Textiles Committee. This would be facilitated if contracting parties agreed to a standstill and rollback in this sector.

63. The representative of Norway, speaking on behalf of the Nordic countries, said that he recognized the importance of textiles and clothing in world trade, particularly for the trade prospects of many developing countries. The Nordic countries supported efforts to secure an orderly expansion of world trade in textiles and clothing, the final objective of which should be to bring about the full application of GATT provisions to this sector of trade. In the short term, such a process could best be pursued by prolongation of the Multifibre Arrangement. The Nordic countries intended to participate constructively in the search for a mutually acceptable solution in such negotiations. Finally, he said that a new round of MTNs would be conducive to the progressive liberalization of world trade in textiles and clothing, and to the eventual reintegration of this sector of trade into the regular GATT framework.

64. The representative of Poland said that his delegation's views in this area were determined by their position as a restricted supplier. It was from this perspective that he recognized that the extension of the MFA might be the most realistic interim arrangement, despite all the well-deserved criticism of this derogation from GATT rules. It was essential, however, that any such extension should be accompanied by a firm commitment not to increase the level of protection given to textiles and clothing during the period covered by the extended MFA. Such ad hoc arrangements should in no way detract from the importance of efforts which needed to be made in the new round ultimately to bring this sector of trade under normal GATT rules.

65. The representative of Japan stated that the new round would provide the opportunity to consider means of achieving liberalization of trade in textiles and clothing and the possibility of a return to GATT principles in this sector. He noted, however, that since the negotiations in the new round would take some time, pragmatic arrangements for the post-MFA III régime would be required. It would be desirable for the time being to renew the MFA, with modifications in the Protocol and in the implementation of the Arrangement which would provide for substantial liberalization, while taking due account of the adverse effect of market disruption.

66. The representative of the United Kingdom speaking for Hong Kong noted that textiles, which accounted for nearly ten per cent of world exports of manufactured goods and twenty three per cent of all exports from developing countries, had for long been on a separate track outside the scope of GATT. In any exercise designed to bring about liberalization and to strengthen the multilateral trading system, textiles was an obvious case for priority attention. However, the future of the existing régime was already under consideration in the Textiles Committee and it would be unrealistic to expect that a successor to the present MFA would not be in place by the end of July 1986. With respect to the nature of that arrangement, the aim should be to bring about maximum possible liberalization, with a duration of sufficient length to achieve that objective. Direct negotiation of this issue in the new round would be precluded by considerations of timing alone since the end of July 1986 was well ahead of the likely commencement of negotiations in the new round. There was in any case a fundamental reason why the MFA should not be included in wider negotiations, namely that it had been created and negotiated within its own bounds, and with no compensation paid to those whose GATT rights had been compromised. It should thus be unwound within its own parameters and without any external concessions. Moreover, selectivity which was applied to trade in textiles should not be brought into the GATT to infect the rest of the trading system; rather it had to be confined within the textiles sector until the MFA could be phased out. While the scope for directly negotiating textiles in the new round would thus be limited, this sector would nevertheless play a key rôle in the confidence-building process at the commencement of the round and would be essential to its subsequent success. Progress in this area was of both real and symbolic importance to the establishment of credibility in any comprehensive approach to trade liberalization. More particularly if it were to emerge that certain parties whilst purporting to seek liberalization and the strengthening of the multilateral trading system in the context of the new round, were in fact acting to prevent or reverse the liberalizing process in textiles, then the prospects of those parties achieving their aims and objectives in the new round might be severely prejudiced. These considerations also extended to the bilateral agreements that stemmed from the multilateral instrument, which must faithfully reflect the degree of liberalization envisaged at the multilateral level. Apart from the bilateral agreements themselves, there should be no attempts to upset the balance of rights and obligations by additional unilateral action such as countervailing duty measures, sudden unilateral changes in origin rules or customs harassment. There was also considerable scope for reducing tariffs in the textiles sector, and this should proceed simultaneously with liberalization under the MFA.

67. The representative of Uruguay stated that trade in textiles and clothing was undeniably a subject which must be taken into account in the Declaration of Ministers, and possibly in the new round. He concurred with the statements made by other developing countries, especially those of Hong Kong and India. The negotiations taking place in the Textiles Committee would condition the attitude of developing countries towards the proposed new round. The process

of liberalization must lead inevitably to the dismantling of the MFA and a return to the rules and principles of the GATT. While some delegations sought to include into the GATT system such new areas as high technology and services, it was only logical to seek that GATT rules and principles be fully applied to trade in textiles and clothing.

68. The representative of Turkey underlined that the textile and clothing sectors held an important share in his country's economy and exports. It was unthinkable to envisage any trade liberalization process through a new round of multilateral negotiations without including the area of textiles and clothing. It was also desirable to revert as rapidly as possible to applying the contractual rules of the General Agreement to trade in textiles and clothing; whatever régime succeeded the Multifibre Arrangement could only be of an interim nature. The coming round of multilateral negotiations would have to take up the question of trade in textiles, for it would probably establish the bases to underlie world trade until the end of the century. In the context of a new round of multilateral negotiations, the starting-point of any discussion on textiles and clothing should be the commitment, set forth in the eighth sub-paragraph of paragraph 7 of the Ministerial Declaration of 1982, to endeavour to introduce liberalization measures in that area. That commitment should be restated in more precise and detailed terms than in the Ministerial Declaration. Furthermore, it would be useful to establish a surveillance mechanism designed to ensure implementation of commitments taken on in that area by the CONTRACTING PARTIES.

69. The representative of Yugoslavia emphasized her country's special interest in trade in textiles and clothing and stated that multilateral action was urgently needed. The position of her country was contained in document L/5818. There had been an escalation of restrictions through the non-observance of the MFA and its Protocol of Extension, and the basic objectives of the MFA had been neglected. Discriminatory quantitative restrictions had been applied in this sector for over twenty years and so far it had been impossible to agree on the application of GATT rules and principles to this sector. Existing, and any future, standstill and rollback commitments relating to measures inconsistent with GATT should be extended to textiles and clothing. Such commitments should be made before the launching of the proposed negotiations and before reaching an understanding in the Textiles Committee on phasing out the MFA.

70. The representative of Romania noted that though the MFA had been created as a temporary derogation from the GATT, it was still in existence after more than twenty years. A very special situation was created by the fact that the MFA was about to expire at the same time as the new negotiations were starting. Since the negotiations would go on over several years, there were a number of possible options regarding textiles trade in the meantime. One option would be simply to do away with the MFA; another would be to extend the Agreement in its present form or in an improved version. A third option would be to try to liberalize trade in textiles and clothing in the multilateral trade negotiations and in the meantime extend provisionally the existing MFA.

While the preferred course would be a return to the principles of the GATT, this was a very complex and delicate operation which could hardly be completed in the short term. However, he expressed the hope that liberalization of this sector and a return to the principles and rules of the GATT were accepted as common goals whose achievement should not be too long delayed.

71. The representative of Argentina said that the process of trade liberalization in textiles and clothing should lead to the full application of the GATT to this sector. The proposed new round would provide an opportunity to make progress in this direction. He agreed with previous speakers that commitments on standstill and rollback should apply in full to textiles and clothing and expressed concern at suggestions that the MFA should be extended to provide yet more time for adjustment, given that these arrangements had already been in place for many years.

72. The representative of Peru said that it would be very difficult to accept that developing countries, after being subjected to discriminatory restrictions for more than twenty years, should be expected to pay for the removal of these restrictions. She saw the liberalization process in the textiles and clothing sector as taking place in two phases. First, the dismantling of restrictions imposed under the MFA would be a unilateral process, without reciprocity or any concessions on the part of exporting developing countries. This process would be completely separate from the new round and would be negotiated in the Textiles Committee. Secondly, there would be negotiations aimed at the reduction of inordinately high tariffs. The subject of textiles should be included in the Ministerial Declaration with a reference to tariff negotiations. There should be no need to refer to other restrictions in the Ministerial Declaration, as these should have already been dealt with in the MFA negotiations.

73. The representative of Chile stated that one of the priorities in the multilateral trade negotiations was the substantial liberalization of trade in textiles and clothing in accordance with the provisions and disciplines of the GATT. He supported the view of other speakers that the MFA should not be prolonged. He said that the reintegration of the textiles sector into the GATT might be achieved gradually, but there should be an agreed deadline and it must be understood that new protective measures could not be adopted unless they were in conformity with the provisions of the GATT. Consideration should be given to the establishment of minimum rates of growth for new suppliers in any transitional arrangements that were made for this sector.

74. The representative of Switzerland said the claim that trade in textiles was taking place outside the realm of GATT was not entirely accurate. Rather, trade in textiles came under two régimes. As regarded to tariffs or dumping, for example, trade in textiles was governed by GATT rules; in the case of non-tariff measures, it was subject to the MFA. The Multifibre Arrangement, like any other sectoral agreement, tended to slow down or prevent changes in the pattern of trade and created vested interests. In addition, the MFA dealt only with quantitative restrictions and ignored other, more subtle,

forms of intervention. It was to be hoped that trade negotiations would lead to the establishment of better and more fully respected rules, and that those improved rules would be applicable to the textiles and clothing sector. Progress in the textiles field would necessarily be gradual, but it should ultimately be possible to bring the MFA fully into the mainstream of GATT rules and disciplines. In the interim, however, the MFA should be extended without any substantial changes, in order to provide a suitable period of transition from the present system to the system that would emerge from the negotiations.

75. The representative of Cuba said that this was a sector of vital importance to many developing countries, the majority of which depended very directly on these commodities for their economic development. The textiles sector had suffered more than most from trade restrictions and unfair practices. The Multifibre Arrangement itself was an exception to the General Agreement which authorized importing countries to impose discriminatory restrictions on exports from developing countries. If this round of negotiations had been proposed in order to improve and strengthen the international trading system, then a fundamental objective should be significant, stable and guaranteed trade liberalization in the textiles sector. This process should include special and differential treatment for the developing countries and for small-scale suppliers of these commodities. Any positive action taken in this sector in the months to come would be taken into account by many governments in defining their participation in the negotiations.

76. The representative of Malaysia said it was serious enough that the derogation from GATT for textiles and clothing had continued for over twenty years through consecutive extensions; it was even more serious that some developed countries had used bilateral agreements and other measures to reduce textile imports from developing countries even further than contemplated by the MFA. This situation did not inspire confidence in the new round or in the current negotiations in the Textiles Committee on the future of the MFA. Malaysia, like other developing countries, had suffered harassment in recent months by one developed contracting party through the imposition of quotas on a number of categories of textile exports. This had resulted in a very unstable situation for the textile industry and had affected both exporters and importers. It had to be recognised, however, that an overnight return to the GATT for textiles and clothing was not possible, even if the reintegration of this sector into the GATT remained a primary objective. Malaysia's position on the future of the MFA had been expressed clearly in ASEAN's statements to the Textiles Committee. The ASEAN countries were willing to work with other parties in formulating a realistic, but more liberal arrangement for textiles and clothing. It should be agreed in a new arrangement that a return to GATT was the final objective with respect to trade in this sector.

77. The representative of the United States expressed caution in regard to the idea that any improvements in GATT disciplines resulting from the new round should be fully applicable to textiles. This approach risked constraining possible achievements in other areas to what could be achieved in the textiles sector. He said that it was impossible to envisage the immediate termination of the MFA; there would need to be a significant element of transition built. He referred to the existence of strong textile lobbies in the United States and elsewhere, and said that improved access to overseas markets and the reduction or removal of subsidies in various sectors would make it easier for the US Administration to press for trade liberalization in the textiles sector.

78. The representative of the European Communities referred to the conditions under which the Long-Term Arrangement on Cotton Textiles and the Multifibre Arrangement were created and stated that until the conditions which had necessitated their creation were eliminated, an ill-prepared return to GATT rules in this sector would cause problems. It certainly could not be decided overnight. As long as the original imbalance of rights and obligations in this sector had not been corrected, to abandon the régime which had enabled members to channel expansion of trade, first in cotton textiles and then in all fibres, would merely lead to recurrence of past disorders. This would be unfair and unwise. So long as some contracting parties had rights but no obligations a Multifibre Arrangement was needed. While it could be said that the MFA was a derogation from GATT, it was a negotiated derogation within the GATT framework, and a contractual commitment: if it were desired to go back to the original situation that must also be on a contractual basis. With reference to the renewal and extension of the Multifibre Arrangement, he cautioned against confusing the short-term with the long-term. The renewal of the Arrangement and ambitions to liberalize trade in textiles and clothing must be handled with care. In the forthcoming round of negotiations the long-term problems of trade in textiles and clothing should be examined to see whether conditions which would ensure liberalization and expansion of trade were present. With regard to safeguards, it was clear that negotiations on safeguards would have consequences for the future of trade in textiles, but this did not mean that a special safeguards clause for textiles should be negotiated. The problem of subsidies and the manipulation of prices would also have to be considered, as well as the problem of counterfeit goods, which disrupted trade and distorted trade flows. It was necessary to strengthen the multilateral trade system to create a healthy environment in which trade in textiles could be treated adequately. Once this had been done, then concrete modalities and timing for individual and collective implementation of GATT rules in this sector would have to be agreed. He noted finally that the MFA had enabled a number of exporting countries to escape the harsh law of competition and to start production which they could not have had without access guarantees. Contracting parties should consider with great care, avoiding demagoguery, how the conditions and the timetable for a return to free trade within a healthy environment could be established.

79. The representative of India expressed concern that some contracting parties seemed to regard textiles as a sector to be excluded from current efforts to promote trade liberalization. He said that this question must be addressed urgently, and settled before 31 July. Discrimination under the MFA affected only one group of countries, and the dismantling of the MFA could not take place in a negotiating context, since there was no question of an exchange of concessions in this field. It was disquieting that some delegations had suggested that any alternative safeguard measures to those contained in the MFA would be worse than the MFA. While there were historical reasons why this sector had been treated differently, to continue with such arrangements indefinitely posed a serious threat to the multilateral trading system.

80. The Chairman said it was clear that the Committee would have to revert to this matter at a later stage.

#### EXPORT CREDITS FOR CAPITAL GOODS

81. The Chairman introduced the subject by referring to the 1982 Ministerial Declaration and the discussion held at the 39th Session, the outcome of which had been that the secretariat would obtain from the OECD the text of the OECD Consensus on Export Credits, the relevant parts of which had been subsequently circulated in document L/5602. He went on to suggest that this subject seemed so closely related to the general issue of subsidies that it might most profitably be taken up in that context, rather than as a specific problem.

82. The delegate of Jamaica said that the following issues related to this item of the agenda: the relationship between officially supported export credits and fair competition in international markets; a more accurate description or definition of the incentives for the export of capital goods, since interest rate subsidies and export credit insurance were only two of several incentives (others included fiscal benefits, such as income tax credits or rebates, as in the former US DISC); greater transparency on the scope and cost of subsidies provided in support of capital goods exports; the exclusion of the OECD Consensus on export credits for capital goods from the GATT Subsidies Code; the benefits which developing countries, importers of capital goods, derived from subsidies; the implications of the OECD Consensus for the competitiveness of developing countries which were exporters of capital goods. Given the reliance of developing countries on export credits to finance capital goods imports necessary for their trade and development needs, control of the volume of export credits and their terms and conditions could no longer be left exclusively in the hands of the countries applying the OECD Consensus. There was neither transparency nor a set of internationally agreed principles establishing disciplines that were equitable and fair to importers and exporters alike. The OECD Consensus had sometimes been described as a price-fixing cartel and had made capital goods

imports of developing countries more expensive, thus imposing higher production costs and additional burdens on their development programmes. The Consensus "country classification", "maximum ceilings" on credit periods and the linkage with movements in market interest rates had generally been cost-increasing factors for developing countries. Jamaica had benefited from export credits and would like to increase their effectiveness. The following elements needed to be examined from the developing contracting parties' perspective within the context of the new round: the establishment of certain GATT principles; differential and more favourable treatment for developing countries including both importers and exporters (the modalities to be defined); per capita income criteria should be abolished; a special régime for the least-developed countries; transparency in terms and conditions; non-reciprocity, including flexibility in the use of "tied" procurement; joint action in enforcing disciplines; appropriate weight to be given to trade-related criteria, inter alia, maintenance of import capacity for capital goods; whether shortfalls result from cyclical or structural factors, e.g. adverse terms of trade for commodity export-dependent economies, absence of capital goods industries, etc. It might be useful to examine the operation of the FAO Consultative Sub-Committee on Surplus Disposal (CSD) which comprised both developed and developing countries. The CSD essentially dealt with sales of agricultural commodities on concessional terms. A major criterion was the so-called "usual marketing requirement" (UMR) which was designed to ensure that the importing country as a general rule maintained the normal level of commercial imports of the commodity concerned. This was a somewhat stringent requirement but the balance-of-payments position and the economic and development needs of the importing country were taken into account. At the same time the CSD was guided by the principle of "additionality", namely, the need to ensure additional consumption in the importing country. These principles also incorporated definitions of the "transactions" (of international trade in agricultural commodities), the "obligations", "uniform multilateral consultations", as well as "notification and consultation procedures". The relevance of CSD principles to export credits was perhaps more readily seen in relation to the discussion on subsidies and agriculture. It was clear that subsidies bore an important relationship to the competitiveness of both the agricultural and industrial sectors. To the extent that there was distortion in the agricultural sector, there were likely to be adverse effects in the industrial sector. It therefore seemed reasonable to deal with the question of export credits and their impact on international trade in a comprehensive manner. One additional argument in favour of looking at export credits was the tensions which had arisen as a consequence of using export credits to support the sales of specific agricultural commodities. The proposals related specifically to export credits on capital goods and the reference to the operation of the CSD might serve as a useful basis to engage in multilateral discussions on this subject. On this basis specific recommendations to Ministers prior to the launching of the negotiations could be considered.

83. The delegate of Israel stated that for his country, which financed part of its development expenditures through the receipt of export credits, the OECD Consensus was of great importance. Since Israel became a member of the Subsidy Code, the Consensus had become of direct relevance to Israel because its terms were part of the Code. His delegation had asked that the Consensus be made available because it was relevant to the Subsidy Code. New interest rates had recently been agreed upon within the framework of the Consensus, and it was essential that the flow of information concerning the latter be maintained for the sake of transparency on a continuous basis.

84. The delegate of Canada said that his country had played and continued to play a rôle in developing and improving international disciplines on the use of export financing subsidies, particularly as they had an impact upon trade in capital goods. Canada would therefore continue to support efforts in this forum as elsewhere to place meaningful and enforceable limits on the "concessionality" in government-supported export credits and mixed credits. The latter had recently proven to be a major source of trade distortion in developing country markets. In addressing subsidy problems in the new round, attention would need to be given to such export credit arrangements, and to the questions how and how fast improved disciplines might be eventually implemented and how it could be ensured that such disciplines would extend to the practices of as many participants as possible, including the newly industrialized countries.

85. The representative of Zaire supported the inclusion of this subject in the new round of trade negotiations. Developing countries in the process of industrialization needed new financial flows to ensure their development and in 1982 Ministers had raised several questions in connection with this problem. Exporters of primary products, particularly in Africa south of the Sahara, had not benefited from the recent economic recovery because commodity prices had remained low. This situation was particularly serious for indebted developing countries and emphasized the need to accord priority attention to the question of export credits, including to repayment conditions. He supported the establishment of a new multilateral facility, the main objective of which would be to make export credits for capital goods accessible to all developing countries.

86. The delegate of Bangladesh fully supported the statement made by the delegate of Jamaica. It had been recognized during the Ministerial Meeting of 1982 that the developing countries often faced problems in obtaining capital goods to meet their development needs. In view of the shortcomings of the existing arrangements it was recommended that contracting parties which were members of international agreements concerning export credits should give special attention to the relevant credit provisions, including specific terms and conditions in order to facilitate the expansion of developing countries' imports of capital goods consistent with their trade and development needs. It had been observed that no systematic progress had been achieved in this matter, although limited steps had been taken by individual developed countries to boost their own exports of capital goods.

The particular problems of the least-developed countries who had practically no access to the international capital market for arranging credit to meet their development needs had been referred to in a previous statement. Least-developed countries like Bangladesh needed access to credits at special terms and conditions consistent with their level of development. During the last few years the developing countries had asked for the establishment of a new facility to benefit exports of capital goods from developing countries. This proposal, which would contribute to the expansion of world trade in capital goods, should be addressed in an adequate manner in the new round.

87. The representative of Argentina recalled that this issue had emerged from the concern of a number of developing countries in regard to the fixing of interest rates by industrialized countries in the sale of capital goods to developing countries. The main idea in the Ministerial Declaration had been to establish a framework that would ensure that the flow of capital goods to developing countries would not be affected by the OECD Consensus on interest rates. What was needed was to determine how better facilities could be granted to developing countries so as to help them increase their imports of capital goods. The development and diversification of exports of developing countries rather than the codification of GATT rules or standards was the subject matter to be discussed.

88. The representative of Sweden, speaking for the Nordic countries, said that export credit subsidies had for a long time distorted competition among industrialized countries. However, since agreement was reached on the OECD Consensus which was implicitly referred to in the Subsidy Code, credit disciplines had improved gradually. Today, subsidies could occur only in a few currencies and in credits to low-income developing countries. There was no doubt that the limitation and eventual elimination of subsidies in officially supported export credits was a matter of considerable importance. The Nordic countries had actively tried to pursue this objective in the OECD. If it were considered that this issue should be on the agenda for the new round, it should be taken up in the context of subsidies.

89. The representative of India recalled that this question had been raised at the 1982 Ministerial Meeting in a different context than the one to which references were now being made. The concern had been expressed that official limits on export credits might affect the expansion of imports of capital goods by developing countries. The focus was not so much on disciplines in this area, a matter which belonged to the domain of subsidies, but rather how to facilitate imports of capital goods into developing countries so that their construction of a modern production structure was not adversely affected by any provisions regarding official export credits.

90. The representative of the European Communities said that he could understand that certain developing countries wanted improved facilities for the import of capital goods, and agreed that it was necessary to ensure transparency of information needed by developing countries as provided for in the 1982 Ministerial Declaration. However, the OECD Consensus was the responsibility of another international body and was not really a topic for

negotiation because contractual commitments in this field were not envisaged. This issue could be a part of the general subject of subsidies which would have to be examined. When discussing the various Tokyo Round codes, a large number of contracting parties had said that some of these had to be reviewed and properly implemented; the Subsidy Code had been mentioned by many delegates.

91. The representative of Egypt, in supporting the statement by the delegate of India, said that the aim was to facilitate imports of capital goods into the developing countries, taking into account the critical situation of some of these countries, especially in Africa. Capital goods were very important for these countries' development programmes.

92. The representative of Singapore recalled that this item had been raised initially by the Philippines and supported by ASEAN and other developing countries. They continued to believe that it should be included in the new round. The speaker expressed surprise at hearing it said that GATT should not deal with work done in other organizations: items like exchange rate fluctuations and trade in counterfeit goods, which had been proposed by the EEC for inclusion in the new round, were also dealt with in other organizations.

93. The representative of Colombia underlined the importance of this matter. If it were decided that it should be part of the negotiation, and Colombia believed that it should, it should not be taken up under the Subsidy Code which was a forum in which not all contracting parties, for well known reasons, could take part.

94. The representative of Jamaica, referring to some points made in previous interventions, said that issues should not be looked at from a narrow, short-sighted, short-term perspective. The matter of export credits had been raised first by his own delegation in order to obtain an overall view of this subject. The Subsidy Code stipulated that signatories should not grant export subsidies on products other than certain primary products, i.e. export subsidies should not be used on industrial products. However, export subsidies, such as export credits, continued to be granted for manufactured products. Export credits had other elements of a trade-related nature and it was necessary to explore what these were. Afterwards, it could be decided how to negotiate on export credits. There was no point in duplicating in GATT what was best done elsewhere. The focus of negotiation in GATT should generally be on micro-structural adjustment, and this approach ought to be adopted with export credits.

95. In concluding the discussion, the Chairman said that the Committee may wish to see later, on the basis of a note, how this item could best be fitted into a wider context.

PROBLEMS OF TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS

96. The Chairman noted that under the 1982 Work Programme, a considerable amount of work had been carried out on the three sectors identified by Ministers - non-ferrous metals, forestry products and fish and fisheries products. A progress report by the Chairman of the Working Party on non-ferrous metals and minerals (MDF/25) had been placed before the 1985 Session of the CONTRACTING PARTIES. The reports on forestry products and on fish and fisheries products to the CONTRACTING PARTIES could be found in documents MDF/23 and L/5895 respectively. The Chairman said that although there might be common elements in the work in these three sectors, the differences between them were such that generalizations covering all of them were likely to be misleading. In the area of non-ferrous metals and minerals, detailed examinations had been carried out on lead, zinc, copper, nickel and tin. After completing its work on the last remaining metal on its agenda, namely aluminium, the Working Party would prepare a report to the Council. The work done so far indicated that there did exist barriers to trade in these products, including tariff escalation and certain non-tariff measures, but that the structure of trade in these metals differed widely, and consequently the nature of the problems arising varied from case to case. In the areas of forestry products, and also fish and fisheries products, the studies carried out had shown that there existed significant barriers to trade. Some of these were of kinds which could be found to apply in other sectors, while others were specific to these particular products. He added that the reports of the Working Party on forestry products and fish and fisheries products both noted widespread support for the idea that further progress in trade liberalization could best be achieved in the context of a multilateral negotiating process. He suggested that the Committee might focus its attention on how best the obstacles facing trade in these sectors be dealt with in a negotiation.

97. The representative of Canada said that his delegation had strongly supported the inclusion of this subject in the 1982 GATT Work Programme and, on the basis of this work, was an even stronger supporter of attaching a high priority to this subject area in the next round of negotiations. The work carried out under the Work Programme had clearly demonstrated that, despite the progress made in the Tokyo Round, tariffs and non-tariff measures continued to have a significant negative effect on trade in natural resource products, particularly in their more processed forms. This work also pointed to the need to develop a more predictable trade and investment environment for resource-based and related products as a means of promoting competitive production and increased international trade. Another element which deserved careful attention, but which had not yet been fully explored, was the importance of eliminating barriers to trade on equipment and services employed in the exploration, exploitation and development of resource products. He noted that there was broad support for including these issues in the next round of negotiations. This support should be reflected in the Ministerial Declaration. In Canada's view, the Ministerial Declaration should establish

as a major negotiating objective; - the further substantial liberalization of trade in fisheries products, in metal and mineral products, in pulp and paper products and in a range of other products and related equipment and services. The objective should be the elimination, or at least significant reduction, of tariffs and other distortions to international trade in these sectors and the development of a more predictable trading and investment environment for resource-based and related industries. He hoped that early agreement could be reached on the modalities for negotiations in this area. At this stage, however, he had an open mind on this subject and was not pursuing a specific approach.

98. The representative of Chile said that there was a need to liberalize trade in certain natural resource products, whether semi-processed or processed. Trade in many of these products was an important part of the foreign trade of developing countries. The Working Party established under the Ministerial Decision of 1982 had identified a long list of problems affecting trade in these products. Negotiations in this area should cover all the trade aspects of market access, competition, and non-tariff measures. In the area of tariffs, it was necessary to secure further bindings, especially for semi-processed and processed goods. Tariff escalation should be eliminated. The coverage of GSP schemes should be extended, zero tariff rates should be established on all eligible products, and no quantitative restrictions should be applied. This would have the effect of eliminating negative preferences. She said that this topic should be a priority in the new round.

99. The representative of Australia said that the issue of commodity prices was especially relevant now for many contracting parties. The terms of trade of exporters of primary products, measured by the IMF's commodity price index deflated by the export price of manufactures, had fallen to their lowest levels since the index was first compiled in 1957. In late 1985, in US dollar terms, world commodity prices were about 30 per cent below average 1980 levels and in real terms were close to the post-war low. Unlike previous recoveries from recessions, commodity prices in this recovery had not rebounded. Developments in world interest rates and exchange rates had combined with structural factors to exacerbate the serious distortions affecting primary commodities trade. Protectionist pressures had intensified and predatory trading practices had worsened. Mineral and metal commodities and forestry products were subject to significant protectionism. Specifically in the minerals and energy commodities area, many of the same resource distorting factors were at work. A factor on the demand side was that the use of minerals and metals and energy had been declining over the last decade or so, leading to protectionist pressures for high-cost mining and processing industries. However, protection in the processing and final product stages had itself contributed to reduced demand for minerals and metals by maintaining high prices, encouraging substitution and contributing to trade diversion and distortion. He supported the view that these were matters for priority negotiation. He did not advocate a uniform solution to these problems, although he noted the pressing need to address tariff escalation in several product areas by peak cutting. Moreover, adjustments required in the

context of the depressed outlook for commodity prices emphasized the need for an early negotiation of a comprehensive and non-discriminatory safeguard mechanism, for an improved approach to dispute settlement, on the liberalization of quantitative and other non-tariff restrictions, and for measures such as a standstill with surveillance which would reinforce the role of the GATT in maintaining open markets in the natural resources sector. It was imperative that the forthcoming trade round address the problem of natural resources and commodity products, given their importance in restoring the terms of trade, in particular for those countries which had serious debt problems.

100. The representative of Gabon said that his country's economy depended to a large extent on trade in natural resource products. Liberalization of trade in these products was necessary, and the exploratory work that had been done since 1982 in this field was useful. It was clear that a number of tariff and non-tariff barriers continued to hamper trade in these products.

101. The representative of Bangladesh said analytical studies which had been carried out to identify problems in these natural resource product sectors had been useful, but the real work of further trade liberalization remained to be done. He agreed with those who favoured the adoption of a comprehensive liberalization programme in these sectors. Liberalization in different sectors should cover all products involved, including items like paper in the forestry sector. Bangladesh had significant interest in these items as potential export products. The problem of trade in natural resource products for the developing countries, and more particularly the least-developed countries, mainly concerned tariff and non-tariff barriers affecting semi-processed and processed goods, as well as difficulties in product development and market promotion. The latter difficulties could be met by strengthening promotion activities of bodies like the ITC, and this would be a welcome accompaniment to the removal of tariff and non-tariff barriers.

102. The representative of Japan noted that considerable progress had been achieved by the Working Party on Trade in Certain Natural Resource Products. In regard to non-ferrous metals and minerals, the problems were not new, and concerned essentially tariffs and non-tariff measures. Such problems could best be addressed in a broad trade negotiating framework rather than through a fragmented approach to specific sectors. In regard to fish and fisheries products, and to forestry products except for paper and paper products, it was his belief that many of the problems associated with those products had much in common with those in agriculture and could best be dealt with in the same negotiating framework as agricultural products. He drew attention to the fact that the Government of Japan had recently taken various unilateral actions to improve the access of these products to the Japanese market. The Action Programme of July 1985 had included the reduction of tariffs on forestry products, fisheries products, non-ferrous metals, and paper and paper products. The Government of Japan was considering further steps to reduce the tariff on paper. In regard to plywoods and other forest products, the Government of Japan had decided to reduce the relevant tariffs beginning FY 1987.

103. The representative of Argentina supported the inclusion of these sectors in any new negotiations since this was an area of great interest to developing countries, in which liberalization had been slow. He stressed, however, that liberalization efforts in this sector should not involve issues outside the competence of GATT. The position of Argentina and of other developing countries on particular aspects of fisheries was clear, and their reservations about discussing certain issues in this sector were well known. The work of the Working Party should be built upon, and a substantive analysis of the non-tariff and tariff barriers in this field should be carried out with a view to determining the most suitable approach to further trade liberalization. The question of negative preferences should also be examined in this context.

104. The representative of Zaire said that in the area of trade in natural resource products, the market situation demonstrated the nature of the conflict between developing country exporters and developed country consumers. The currently depressed prices for primary products posed dramatic problems for the economies of the developing countries, particularly those facing heavy debt burdens. It was for this reason that depressed prices should be regarded as one of the problems affecting trade in natural resource products. Negotiations on these issues were necessary in the new round. Work accomplished so far had identified a number of tariff and non-tariff barriers to trade in natural resource products in their raw, semi-processed or fully processed forms. Tariff escalation had also been identified as a problem. He stressed that although he supported the inclusion of this issue in the new round, his country would oppose any efforts to erode the trade benefits of the Lomé Convention. He said that negotiations should be organised on a sector by sector basis, in view of the specificity of each sector.

105. The representative of the United States noted that the Working Party on Trade in Certain Natural Resource Products established in accordance with the 1982 Ministerial Declaration had identified problems to trade in natural resources relating to both tariffs and non-tariff measures. The Working Party had done considerable work, assisted by the secretariat, in enumerating areas in which future progress was desirable, and this work could, with the agreement of contracting parties, form the basis for discussions in the context of a new round of trade negotiations.

106. The representative of New Zealand expressed support for trade liberalization in natural resource products in the context of the new round. He said that whenever restrictions on access or tariff escalation affected a country's ability to exploit its comparative advantage, then such measures fell appropriately within the ambit of multilateral negotiations designed to liberalize trade. While being flexible as to the negotiating framework, New Zealand considered that fisheries, forestry and other natural resource products in semi-processed and processed forms, including paper and paper products, and the measures that affected trade in these products, should be an integral part of the overall negotiations.

107. The representative of Peru said that the liberalization of trade in natural resource products was a priority for developing countries, and for Peru in particular. The Working Party on Trade in Natural Resource Products had done important work in identifying a whole range of problems within the competence of the General Agreement which ought to be tackled in the context of any future multilateral negotiations. Negotiations should cover all aspects of the issue - trade aspects, tariffs and non-tariff barriers, tariff escalation, GSP treatment, as well as questions relating to negative preferences. In regard to all these issues, Peru's position coincided with the views expressed by the delegations of Chile and Argentina. Negotiations in all three sectors should however cover only those issues which were within the competence of the General Agreement.

108. The representative of Poland said that the work done so far in pursuance of the 1982 Ministerial Work Programme provided a sound background for possible future negotiations in the area of natural resource products. The negotiations should tackle a number of traditional issues relating to tariffs, tariff escalation, and non-tariff measures, which might be taken up within the overall effort to strengthen GATT disciplines. Moreover, the work done so far had helped to identify certain important problems specific to the sector of fish and fisheries products. These problems had to be addressed in the new round along with other subjects relevant to trade in natural resource products.

109. The representative of Sweden, on behalf of the Nordic countries, repeated the view that sectoral negotiations led to an unproductive fragmentation of international trade and trade relations which should be avoided. Requests for sectoral negotiations by some countries in certain sectors were likely to provoke requests by other countries for similar action in other sectors. The idea of treating certain trade problems in a sectoral framework was not a new one, having been put forward and debated extensively in the Tokyo Round. The Nordic countries had reluctantly agreed at that time to include a sector approach in the negotiations, but as the negotiations proceeded most delegations became convinced that this approach was not a useful one. It was hardly necessary to repeat all the objections to the sector approach that were raised at that time. The GATT work on natural resource based products since 1982 had not provided any convincing arguments to change the Nordic countries' basic attitude to sectoral negotiations. The Decision by Ministers did not imply anything more than studies to be undertaken in particular sectors. The Nordic countries strongly believed that the goal of trade liberalization should be pursued through approaches and formulae as general as possible.

110. The representative of Switzerland questioned the appropriateness of granting special treatment to the natural resource product sector. Such treatment would encourage the fragmentation of GATT into a series of sectoral programmes or activities. There seemed no reason why harmonization of tariffs or possible measures to improve the situation in regard to non-tariff barriers, including subsidies, would not be effective in this particular sector. Specific treatment for a given sector or sub-sector would lead to

similar requests for other sectors. In this way the unity and coherence of the world trading system would be endangered. Nevertheless competition in trade in the natural resource sector was less free than in other sectors. A proliferation of import and export measures distorted competition in a striking way, and the causes and consequences of this state of affairs should be examined. Among the causes might be the wish to exploit existing resources even under conditions which were not competitive. Support measures led to excess production and over-utilization of natural resources. One important question to be addressed was why these sectors did not appear accessible to world-wide competition. Depending on the answers to basic questions it would be seen whether special ad hoc rules needed to be worked out. If such special rules were needed their scope, field of application and implementation in relation to the normal GATT rules would have to be defined.

111. The representative of the European Communities said that the reports of the Working Party on Trade in Certain Natural Resource Products had pinpointed a number of barriers to trade in these various sectors. The Community agreed that in the new round of negotiations an attempt should be made to eliminate these obstacles. Negotiations should deal with tariff peaks, quantitative restrictions, measures restricting exports and any other non-tariff measures. The Community was willing to take part in negotiations on this topic. Like Japan, the Nordic countries and Switzerland, the EEC was not generally in favour of a sectoral approach. This would split the GATT into a series of sectors or sectoral activities. Such techniques of negotiation had failed in the previous round of negotiations. Turning to fisheries, the representative said that this was a rather particular case since in this sector other factors in addition to trade barriers came into play. In this case, he questioned the usefulness of discussing tariffs and quantitative restrictions without dealing with the question of access to so-called reserved fishing areas. The two aspects were quite obviously linked and should be discussed together. Therefore, fisheries would need to be the subject of a special separate negotiation. The EEC did not want to renegotiate agreements drawn up elsewhere, such as the Law of the Sea, but only to discuss all issues which had a trade impact in the field of fisheries.

112. The representative of Cuba said that the work accomplished by the Working Party on Certain Natural Resource Products, which identified a series of problems in the international market for these products, should be the foundation for future work in this area. The topic of trade in natural resource products should be accorded priority in future negotiations, with a view to achieving substantial liberalization in the three sub-sectors concerned. Given the importance of such trade for exports of developing countries, the effective implementation of special and differential treatment in this area should be kept in mind. Referring to trade in non-ferrous metals and minerals, she noted the existence of particular problems in addition to tariffs and tariff escalation. In regard to fisheries, she emphasized that matters which were not within GATT competence could not be dealt with in the forthcoming negotiations.

113. The representative of Indonesia supported the inclusion of natural resource products in the list of subjects to be negotiated in the new round. The negotiations should aim at the liberalization of trade in these products, with particular attention to the questions of market access and tariff escalation affecting products in processed and semi-processed forms.

114. The representative of Uruguay recalled the importance of trade in certain natural resource products for developing countries, particularly in view of the collapse in prices and its effect on export earnings. This was a pressing problem for those countries with high debt servicing burdens. Information gathered in the Working Party on Trade in Certain Natural Resource Products revealed the existence of tariff and non-tariff measures that hampered trade in this sector. These natural resource products, at all their stages of processing, should be included in the trade negotiations. He reaffirmed the position taken by his country in the Senior Officials' Group in regard to fish products and access to fishing areas.

115. The representative of Argentina said that if there was no argument to justify special treatment in negotiations for non-ferrous metals or fisheries or timber products, then he could not see why other issues could be granted special treatment in negotiations. It would be very difficult to convince his authorities that there would only be a single topic which deserved to be negotiated in a special or particular way. Referring to the intervention of the European Communities in regard to fish and fisheries products, he stated that his country attached utmost importance to the maintenance of the Treaty on the Law of the Sea in its entirety.

116. The representative of India referred to the questions of market access and access to resources which had been raised by some delegations, and stated that there could be no obligation in GATT on any contracting party to export. The issue of access to resources was entirely outside the framework in which the subject of natural resource products was being considered. Access to resources and market access could not be linked in the way that some delegations seemed to suggest. If the question of optimum international management of natural resource products were to be considered, then the issue of an optimum régime for the international management of the capital available and of technology should also be examined. He reserved the right to return to the subject of trade in natural resource products with a concrete proposal in regard to commodity price stabilization. He noted that Part IV of the General Agreement recognized the need for measures to stabilize commodity prices and to make them more remunerative for the developing country exporters.

117. The representative of Chile expressed concern over the fact that some countries were not prepared to grant special treatment to trade in certain products when these products were not of interest to them, whereas when the same countries had a special interest in other products they asked for such treatment. Natural resource products were of great interest to developing countries and their request for special treatment of these products should be given due consideration.

118. The representative of Yugoslavia expressed her country's interest in the liberalization of trade in natural resource products. This objective should be pursued on the basis of priority treatment for products of interest for developing countries. The work of the Working Party on Trade in Certain Natural Resource Products and the discussion held in the Preparatory Committee showed the need for priority treatment for these products. Future negotiations on trade in natural resource products should cover only issues which fell under the competence of GATT.

119. The representative of Iceland referred to the intervention made by the European Communities on this subject. He said that the position previously expressed by the Nordic countries in regard to the sectoral approach was valid for fish and fisheries products as well. Recalling his statement made on behalf of the Nordic countries in the GATT Council on 5 November 1985, he repeated that the Nordic countries considered that the pursuance of national policy objectives in the fish resource area fell clearly outside the purview of GATT negotiations. The Nordic countries were also opposed to any linkage being made between access to resources and access to markets.

120. The representative of the European Communities regretted the tendency to focus excessively in discussion of any subject on the question of institutional competence. Any institution which did that ran the risk of failing to adapt to changing times and circumstances. What must be borne in mind in these discussions were the longer-term interests of the organization. In examining the question of fisheries, undue concentration on the question of competence would be unwise.

121. The Chairman said that the discussion had clarified what the problems were in this area. It would help to focus future discussions if the secretariat identified in a systematic way the main points which had been raised in connection with this subject, both in the Preparatory Committee and in the Senior Officials' Group.

#### EXCHANGE RATE FLUCTUATIONS AND THEIR EFFECT ON TRADE

122. The Chairman recalled that a study by the staff of the International Monetary Fund entitled "Exchange Rate Volatility and World Trade" had been presented to the Council in March 1984. The general conclusions drawn from studies in this area suggested that it was extremely difficult any empirical means to establish a statistically significant link between exchange rate variability and the volume of international trade. While it was possible that volatile exchange rates, by increasing uncertainty, had heightened the defensive preoccupations of traders and added to the protectionist pressures on governments, empirical study could throw little light on such matters. At their 1984 Session, the CONTRACTING PARTIES urged that their concern on this subject be taken into account by the IMF in its continuing efforts to review the International Monetary System with a view to possible improvements. He said that it must be borne in mind that the exchange rate was a function of macroeconomic policies, of which trade policies were only a small part;

therefore, while trade policy played an important role, it would not solve problems belonging essentially to the area of monetary and fiscal policies which called for suitable action by those directly responsible in this area. With this in mind, he invited the Committee to reflect on what kind of message trade Ministers would wish to transmit to their colleagues at the time of launching a new round of negotiations.

123. The representative of Egypt said that little had been done in this area since the Ministerial meeting in 1982, and he urged that more attention be given to this subject. He stressed that misaligned and volatile exchange rates, together with other monetary and financial issues, should be dealt with in the trade negotiations, since exchange rate fluctuations had negative effects on international trade. Monetary stability was a prerequisite for fruitful trade negotiations. Thus, to restore confidence in the trading system, attention had to be paid not only to protectionism but also to exchange rate fluctuations which had threatened the growth and expansion of international trade for a number of years.

124. The representative of the European Communities noted the interest of his authorities in this item. Events in recent months testified to an increasing recognition of the interrelationship between the monetary system, and notably exchange rate fluctuations, and trade policy, and thus of the need to avoid undue perturbations of trade resulting from abrupt and uncontrolled exchange rate fluctuations. The Community therefore welcomed the progress made by the Group of Five in 1985: while progress since then had not been as evident, they hoped the process would continue. The Community did not consider the question of exchange rate fluctuations as such to be a subject of negotiation in a new trade round; however, it did constitute a matter where an appropriate understanding would contribute to the successful outcome of the negotiations.

125. The representative of Brazil recalled that, during the meetings of the Senior Officials' Group, many delegations had felt that this issue deserved special attention in the broader context of the discussion on the trade-finance link. His delegation attached great importance to the effects of exchange rate fluctuations on international trade and noted that stable exchange rates had been one of the basic assumptions in setting up the International Monetary Fund and in negotiating the General Agreement. As part of the GATT Work Programme, this item was subject to special recommendations adopted by the Ministerial Meeting of 1982. Given the importance of this problem to trade, his delegation believed that the Ministerial Declaration of 1982 on this subject had been interpreted in a restrictive manner. The GATT should have its own views on this subject; his delegation thus agreed with those proposing an in-depth examination of the implications of this issue for the General Agreement, as well as for the stability of obligations assumed in previous rounds of negotiations. Such an examination became even more necessary in light of the proposed new round of multilateral trade negotiations, as a correct evaluation of the benefits arising from concessions would be an essential ingredient of the negotiating

process. In calling attention to the recent statement by the President of the United States on the question of fluctuating exchange rates, he noted his delegation's expectation that this initiative would move towards addressing some of the issues which concerned his delegation, including the effects on trade of such fluctuations, in a multilateral framework with participation by developing countries.

126. The representative of Argentina agreed with the European Communities that this subject was not for negotiation as such, but that some discussion on the matter might shed useful light on other subjects which might be included in the negotiations. Any understanding on this item should result from consultations in which all countries had the opportunity to participate.

127. The representative of the United States said that a sound, stable international monetary system was necessary for, and supported by, an open and healthy international trading system. Presently, there were a number of steps in progress to help improve the functioning of the international monetary system: the April meeting of the IMF Interim Committee would consider reports by the G-10 and the G-24 on this subject. In addition, consideration was being given in the United States to the possibility of convening an international conference to consider the rôle of currencies and the relationship between them. However, as the functioning of the international monetary system was a very complex matter, these parallel efforts needed time to achieve results.

128. The representative of Hungary said that the negative effects of fluctuating exchange rates on trade were multiplied for small countries like his which depended on foreign trade and yet had no convertible currency. It was also evident that sharp movements in exchange rates altered the value of trade concessions, while trade liberalisation through collective bargaining in GATT had been based on a fixed exchange rate system. While the subject of the trade effect of exchange rate fluctuations as such should not be a matter of negotiation within the new round, it should be taken into account during the negotiations.

129. The representative of Norway, speaking on behalf of the Nordic countries, said there was an important link between the trade and monetary spheres. Developments in the latter area had repercussions on trade and thus on the functioning of the trading system. While they attached importance to action in the exchange rate field as the preparations for the new round, and the subsequent negotiations proceeded, the Nordic countries neither considered exchange rate fluctuations to be a negotiating item in the round, nor accepted the establishment of a formal link between progress in the round and in the exchange rate field. Like the United States, they welcomed recent developments in the monetary area and the discussions taking place on monetary problems, inter alia, in the Group of Five and the Group of Ten. The Nordic countries would address these issues in the appropriate fora.

130. The representative of Bangladesh appreciated the work done in the GATT following the Ministerial Declaration to focus on the effects of exchange rate fluctuations on international trade and noted that the study prepared by IMF had been helpful. Recent events in the international monetary arena reinforced the belief of his authorities that misaligned and volatile exchange rates could have a devastating effect on trade, particularly that of the developing countries. Appropriate action should be taken in this area. His delegation thus believed there could be no meaningful or effective negotiation on liberalising international trade without corresponding progress in the area of exchange rate fluctuations and other matters relating to the international monetary system.

131. The representative of Japan said his delegation recognised the close interrelationship between fluctuations in exchange rates and trade and supported the view that efforts in both domains must be made in parallel. Concerning recent measures his government was undertaking for medium and small-scale enterprises, he said these measures were designed to assist those enterprises engaging, of their own will, in structural adjustment, in face of the rising yen, so that they could smoothly convert their export-orientated business activities into domestic market-orientated ones. Therefore, the measures did not constitute export credits.

132. The representative of Zaire said that the interrelationship between trade problems and those in the monetary and financial sphere made it impossible to envision an improvement in the former without taking parallel concrete and effective measures in the latter. For these reasons, his delegation also welcomed the decision by the President of the United States to consider holding an international monetary conference, to which he hoped developing countries would be invited. The GATT, for its part, should carry out a study and make concrete proposals to make a meaningful contribution to this subject in the light of the impact of fluctuating exchange rates on trade.

#### SERVICES

133. The Chairman noted that, aside from services, the Committee had addressed all of the elements of the 1982 Ministerial Work Programme. He recalled the decision concerning services taken by the CONTRACTING PARTIES in November 1985, and the discussions which took place in the Senior Officials' Group prior to this decision. He also recalled that one delegation had made a statement at the Committee's last meeting.

134. The representative of Switzerland said that service activities, both in production and trade, were playing an increasingly important part in national economies. Growing links between trade in goods and trade in services, created a complementarity which sometimes made it difficult to dissociate the two. Government legislation in the realm of services was having an increasing impact on trade flows in goods. For these reasons, it would be appropriate to include services in the next round of multilateral trade negotiations. An essential first step in this regard would be to define rules that would govern the exchange of concessions in services.

135. The representative of the European Communities said his delegation believed that trade in services must be included in the negotiations. This was a question which needed to be examined further in the Committee, since not all contracting parties were yet convinced of the need to include services. In addition the meetings on services that were taking place in the GATT in the context of the decision taken by the CONTRACTING PARTIES in November 1985 would be useful in clarifying various issues in the services sector. The modalities and scope of possible negotiations on services should be discussed after a decision had been taken to include trade in services on the agenda for the new round.

136. The representative of the United States said that seeking ways to make trade in services as open as possible was a key priority for his country in the new round. His delegation believed that many other countries also shared this objective. Services were now far more important in national economies and in trade than they were when the GATT was first conceived, and dramatic improvements in communications would enable the service industries to export more easily in the future. In order to continue to facilitate growth in trade and in the world economy, the GATT should rise to the challenge of dealing with services trade. While services trade issues were very complex, the GATT had made a good start and it was evident that many contracting parties were willing to focus on this issue in the context of a new round. During discussions on services in the GATT, his delegation had attempted to initiate a dialogue on the possible outlines of an understanding on services and the principles to be included. Some of these were well-established GATT principles which could if necessary be modified slightly to apply to trade in services. The foundation of a services understanding should be a framework of principles and procedures based on the concepts of market access, national treatment, transparency and open regulatory procedures, fair practices of government monopolies, and dispute settlement. It was a recognized sovereign right of each country to establish regulations for purposes of national security, cultural sovereignty, consumer protection and for fiduciary considerations, and no services agreement would diminish these rights. At the same time, there was concern that some of these regulations could be used to restrict competition and distort trade. An agreement on how to deal with this problem would be to the advantage of all countries. As specific services faced different barriers in international markets, it might also be necessary to negotiate a series of agreements that addressed the particular problems of individual service industries. Decisions on which services to address and in which order should be part of the negotiating process. Although it had been suggested that it would be impossible to apply rules to services without first agreeing on a definition of what services comprised, his delegation felt that this would emerge in the context of the negotiations. Since trade liberalization in services would enhance development and economic growth for developed and developing countries alike, he hoped for the broadest possible participation among countries in a services negotiation.

137. The representative of Brazil referred to the two related decisions adopted by the the GATT CONTRACTING PARTIES at their Forty-First Session: one to establish the Preparatory Committee to determine the subject matter, modalities for and participation in multilateral trade negotiations, and the other to continue the exchange of information on services undertaken in pursuance of the 1984 Agreed Conclusions of the CONTRACTING PARTIES and of the 1982 Ministerial Declaration on Services. Whereas the Preparatory Committee had been requested to prepare by mid-July 1986 recommendations for the programme of negotiations for adoption at a Ministerial Meeting to be held in September 1986, the related decision on services required that recommendations be prepared for consideration by the CONTRACTING PARTIES at their next session. The Preparatory Committee's task was to be carried out within the perspective of multilateral trade negotiations, and in the context of the Ministerial Work Programme and views expressed in the Group of Senior Officials. The related decision on services clearly fell outside the perspective of negotiations and had been explicitly incorporated into GATT work in a context which recognised the need to examine the appropriateness and desirability of multilateral action in services. As the CONTRACTING PARTIES were to consider the appropriateness and desirability of multilateral action in the services field at their next session, and bearing in mind the divergence of views expressed on the subject in the Senior Officials' Group, there remained no basis for the Preparatory Committee to address a theme which fell outside the jurisdiction of the General Agreement on Tariffs and Trade. While his delegation would not object to delegations expressing their views on this subject, for the records only, this should not be interpreted as acknowledging the right of any contracting party to discuss the matter here or as recognition of any basis for the Preparatory Committee to examine this subject. His delegation would regret being placed in the position of having to oppose any attempt to disrupt the clear understanding which had made it possible for the CONTRACTING PARTIES to agree by consensus on the establishment of the Preparatory Committee.

138. The representative of Japan recalled that his delegation had spoken in the Senior Officials' Group of the need to initiate negotiations on services and the appropriateness of GATT as a forum for those negotiations. There was now a deeper appreciation of the need for multilateral negotiations on services. The Preparatory Committee should consider in what specific way the negotiations on services should be conducted. The objectives of a services negotiation in GATT would include raising standards of living through a greater expansion of the world economy, liberalising and eliminating obstacles to trade in services, establishing a set of ground rules, or an agreed international framework, for gradual but effective liberalisation, and ensuring the transparency and predictability of laws, regulations, procedures and practices in trade in services. The attainment of these objectives would require the participation of all countries in the negotiations, including developing countries. While the details of any agreement on services could only be determined in the actual negotiations, it would be useful to consider drawing up a code which set out some common principles applying to all trade

in services. It would be necessary to see how far the principles of the GATT could be applied to this trade. The specific relationship between such a code and the General Agreement could be considered once a code had been drafted. Finally, in view of the difficulty which many developing countries might face in the light of their development needs, his delegation was ready to examine the possibility of transitional measures such as provisional accession to the code under certain conditions.

139. The representative of India said that his delegation's views on this subject had been stated previously in the Special Session of the CONTRACTING PARTIES, in the Senior Officials' Group and in the Forty-First Session of the CONTRACTING PARTIES. While setting up the Preparatory Committee in their November 1985 Session, the CONTRACTING PARTIES took a decision to extend the exchange of information on trade in services undertaken in pursuance of the Agreed Conclusions of 1984. This decision was taken in recognition of the fact that the CONTRACTING PARTIES were not yet in a position to decide on the appropriateness and desirability of multilateral action in services. The Preparatory Committee was not, therefore, in a position to take up the subject of services. To do so would be to prejudge the outcome of the discussions in the Group established to exchange information on services.

140. The representative of Yugoslavia said that while the group discussing services had undertaken extensive work, the complexity and importance of this subject made it impossible to take appropriate decisions at this stage. Unless and until the CONTRACTING PARTIES decided by consensus that multilateral action in services was necessary and that the GATT, alone or together with other international organizations, provided an appropriate institutional framework, the work of GATT in services should be carried out within the framework set out in the Ministerial Declaration of 1982, the Agreed Conclusions of CONTRACTING PARTIES of 1984 and the 1985 Decision of CONTRACTING PARTIES. The Preparatory Committee should not at this stage look at services as a subject for negotiations, as this would prejudge decisions which the CONTRACTING PARTIES had yet to take.

141. The representative of Argentina noted that previous speakers had already referred to the other forum dealing with this subject. This forum was carrying out certain work and had agreed on a framework for carrying out that work. In view of this, discussion of this matter in the Preparatory Committee was premature, and there was no decision to be made for the time being. In due course, the CONTRACTING PARTIES would be in a position to take a decision on this matter.

142. The representative of Uruguay noted that his delegation's position had been stated in the Senior Officials' Group and said that since then nothing had happened to justify any change in this position. His government remained open to dialogue on this question and would follow closely the work being done in the Group set up by the CONTRACTING PARTIES. At the appropriate time the CONTRACTING PARTIES would return to this matter and take a decision on the basis of what had happened in the meantime.

143. The representative of Sri Lanka said his government's interests concerned the rôle of services in the development process. While services constituted a large share of the developed countries' domestic economies, they accounted for a much smaller proportion of world trade because the bulk of services were not tradeable. His delegation believed that the GATT did not presently have the legal competence and jurisdiction to deal with services. GATT should concentrate on reducing and eliminating barriers to trade in goods and on eliminating discrimination in such trade, as stipulated in the Preamble to the General Agreement. Issues covering trade in services touched on the competence of several international organizations and agencies whose respective rôles must be recognised and respected. As the exploratory process agreed by the CONTRACTING PARTIES at their Forty-First Session was likely to be long and difficult, no useful purpose would be served by parallel deliberations on this subject in the Preparatory Committee. Any exercise aimed at restoring GATT's credibility and strengthening the open multilateral trading system must first address the traditional issues facing the GATT.

144. The representative of Cuba said that her delegation believed that services should be dealt with in keeping with the Decision of the CONTRACTING PARTIES taken in November 1985. As many delegations considered services to be alien to the GATT, it could only be included if there were a consensus among all contracting parties to do so. There was still great scope for useful work in the field of trade in goods, and she questioned why the GATT should become involved in the new field of services. Her delegation supported a declaration made by the Council of SELA which expressed the concern of Latin American countries in regard to the inclusion in the new trade round of subjects which were not within the competence of the General Agreement.

145. The representative of Sweden on behalf of the Nordic countries said that on repeated occasions the Nordic Countries had expressed support for GATT negotiations on trade in services, and for the view that these negotiations should be carried out in the context of a new round. Continuing work in the GATT and in various international organizations had, in their view, clearly indicated the need for multilateral discipline governing trade in services. The Nordic countries were flexible as to how such negotiations could best be structured. As services already constituted a substantial and increasing part of world trade, it was time to broaden and deepen analytical work currently underway in order to prepare for multilateral action.

146. The representative of Australia said that while statistics varied, there were indications that services constituted a significant part of world trade. Although services was a complex issue, this did not constitute an adequate reason for putting it aside. Discussions over the last few months had begun to clarify some of the concepts involved and to address the question of how services might be handled. It was also clear that in order to come to terms with this issue, discussions on services would have to be a co-operative endeavour. The founders of the GATT had the foresight to lay the basis for an open trading system, which had benefitted all countries in trade in

manufactures. There were still some significant weaknesses and some key areas of trade which had not enjoyed the benefits of open trade. The new trade round needed to address these areas. However, it was also clear that services had now become a large part of world trade, and thus it was time to examine what benefits might be obtained from securing open trading arrangements in the services sector. Trade in services should, therefore, be included for consideration in the new round.

147. The representative of the United Kingdom speaking of behalf of Hong Kong said that his government's open trade policy meant that they supported any efforts directed towards trade liberalization, both for trade in goods as well as trade in services. At this stage, however, services was not a priority subject for the new round. Only limited information was available so far on the issues that this subject raised. There were relatively few national studies and there was no agreed definition of services. Problems arising from insufficient data were further complicated by different methods of compilation adopted by different governments. The scope and complexity of the services sector made a very long preparatory period necessary before any negotiations could take place. This preparatory period could quite conceivably extend beyond the time frame presently envisaged for the new round. An additional consideration was that the extension of certain GATT principles such as m.f.n. to services might risk distorting these fundamental principles which in turn might have adverse effects on trade in goods. Services should, therefore, be approached with caution. There was no negotiating linkage between goods and services and discussions on services should not be allowed to delay or impede progress in the traditional areas, where long outstanding problems needed immediate attention. He concluded by noting that the issue of GATT competence could only be decided by the CONTRACTING PARTIES acting as a whole.

148. The representative of Egypt recalled the decision of the CONTRACTING PARTIES in November 1985 to continue consideration of this subject in an established framework, and the decision that these deliberations would be reported to the CONTRACTING PARTIES at their next Session. He believed it was necessary to continue to exchange information and to obtain adequate data before any decisions could be taken about future action. He therefore agreed with previous speakers from developing countries that it was premature to discuss services in the Preparatory Committee.

149. The representative of Canada said that discussions in GATT on services had highlighted the importance of this area of trade both in national economies and in international transactions. A growing proportion of services was being traded. Moreover, with the development and expansion of new technologies, service industries increasingly helped maximise opportunities for trade in goods by improving the competitiveness and efficiency of industrial production. His government considered that trade in services was an appropriate subject for inclusion on the agenda of the new round. There was now an opportunity for the international trading community to influence the elaboration of basic ground rules before trade in services

became the subject of confrontation in bilateral trade relations or rules were arbitrarily imposed through national legislation and practice. A broad multilateral system of open, fair and reciprocal rules and obligations governing services could help expand global economic activity by improving the predictability and security of market access conditions and by enhancing competitiveness and the productivity of resources and goods producing industries. Negotiations on trade in services might also be taken into account in the balance of advantages in the overall negotiations and thus increase the opportunity for developing further mutually advantageous arrangements. Such an endeavour would fall squarely with the objectives for the new round. A major objective in including services in the new round of negotiations would be to develop a broad multilateral contractual framework for the conduct of trade on a mutually advantageous basis and for the resolution of disputes in this area. Such a framework could also promote the liberalisation of trade in services, to the extent possible. Existing non-tariff measure agreements (such as those on government procurement and technical barriers to trade) might also be reviewed to consider their possible extension to trade in services. Negotiations in services would be facilitated if it were possible to reach agreement on a standstill commitment covering trade in services, so as to prevent the introduction of restrictive measures during the course of negotiations for the purpose of gaining a negotiating advantage.

150. The representative of Israel said that the establishment of a multilateral framework for trade in services within GATT would benefit both developing and developed countries. In the forum established by the CONTRACTING PARTIES every effort should be made to reach an agreement on the inclusion of services in the negotiations and also to exchange preliminary views on the modalities of such negotiations. The Decisions taken last year did not exclude the Group which was examining issues in this area from preparing and submitting conclusions to the Preparatory Committee or to Ministers at the time of the Ministerial meeting. His delegation would make every effort to ensure that a positive decision concerning the inclusion of services in the multilateral trade negotiations could be achieved within the existing framework of arrangements.

151. The representative of Peru agreed with a number of previous speakers, who had emphasized the need to continue the exchange of information on services with a view to deciding whether multilateral action was merited and to defining what type of action that might be. Her delegation thus failed to see how the Preparatory Committee could be charged with this matter as it would be prejudging or anticipating the results of the exchange of information exercise. Her delegation also supported the Ministerial Declaration of the Latin American Economic System (SELA) of December 1985 which expressed concern about the inclusion in the multilateral trade negotiations of subjects such as services, which fell outside the GATT's area of competence.

152. The representative of Jamaica noted that services had been discussed in the Consultative Group of 18 in 1979. His delegation had raised the subject in the GATT because, while commodity prices were collapsing, freight and insurance rates were increasing. In addition, a GATT secretariat study (CG18/W/49) had pointed out that services were to some extent covered in the Tokyo Round in that the removal of certain obstacles to trade in services had been requested by some contracting parties. Several of the MTN agreements contained specific references to services, and a number of non-tariff measures relating to services had been notified to the GATT in the context of the Inventory of Non-Tariff Measures. Despite having called attention to these facts, Jamaica still considered open the question whether services should be dealt with in the new round of trade negotiations. The answer to this question would depend in large part on the progress made by the consultative group established by the CONTRACTING PARTIES. However, a number of issues were relevant to an examination of trade in services. For example, could services be defined according to a standard international trade classification and thus be made amenable to negotiations along traditional GATT lines? Could they be negotiated sector by sector? Should services be incorporated through a renegotiation or extension of the coverage of the General Agreement? Would concessions be limited to an exchange within and between service sectors or would there be trade-offs with concessions on trade in goods? The regulatory nature of some barriers to trade in services might require that national and regional regulations be consistent with, and notified to, the GATT. The implications of national treatment would need more thorough understanding. In view of the need to build a consensus on treating services within GATT, would it be possible to launch a new trade round in goods only, pending further work and clarification, and, if a consensus were reached, to introduce services for negotiation at a later stage? A written statement by Jamaica submitted to the Senior Officials' Group had referred to the need to define the structure of production and trade in services. This should be explored further in the appropriate GATT forum.

153. The representative of Nigeria said it appeared that the majority of contracting parties were not yet in a position to contemplate the inclusion of this subject in GATT's regular work. A number of major trading partners were still trying to draw up their national studies while most developing contracting parties had not yet done so. While his delegation was flexible about embarking on a new round, it was ill-prepared regarding services. Developing countries should be allowed time to improve their knowledge of this subject and to produce their national studies. In addition, Ambassador Jaramillo's group should be given more time to continue its exchange of views on this subject before a decision was taken whether to include services in the new round of multilateral trade negotiations. His delegation could not say whether a multilateral framework covering this particular subject would be desirable, and if it were, whether it should be brought under the GATT.

154. The representative of Austria said that since the new round of trade negotiations aimed to continue liberalizing international exchanges, it was logical to include international trade in its entirety. An effort should be made to examine whether and to what extent trade in services should be brought under multilateral rules. A question to be considered was whether present GATT rules could be applied to this sector, or whether different rules would need to be developed. Much preparatory work remained to be done before negotiations could take place in this sector. In order to expedite this work, trade in services should be included in the new round.

155. The representative of the United States said he had sought in his earlier intervention to explain how his delegation saw negotiations on services. He had intended to clarify the issue and to stimulate discussion in order to achieve a better understanding of the substance, as opposed to the procedural aspects, of the subject. He reminded the Committee that the CONTRACTING PARTIES had agreed in November to establish a Preparatory Committee which was to prepare by mid-July recommendations for a programme of negotiations for adoption at a Ministerial Meeting to be held in September 1986. In its work, the Committee was instructed to take into account the 1982 Ministerial Work Programme and the views expressed in the Group of Senior Officials. The need to prepare recommendations for Ministers by mid-July meant that there was a considerable amount of work to be accomplished in a short period. This limited the time available for repeating well known positions. As far as trade in services was concerned, his delegation remained willing to work in the Committee and in the group established to examine this issue in order to move matters forward.

156. The representative of the European Communities welcomed the US statement and concurred with the proposals expressed therein regarding the Preparatory Committee agenda. The preparatory process was in part a task of persuasion and all views must be respected in this process. Contracting parties should avoid adopting positions which simply cancelled each other out. If rigid boundaries were drawn around the work of an organization, and its competence defined too rigidly, the organization would become less and less relevant as circumstances and the environment changed.

157. The representative of Brazil referred to the statement he had made earlier and repeated that his authorities would regret being placed in the position of having to oppose any attempt in the Preparatory Committee to disrupt the clear understanding which made it possible for the CONTRACTING PARTIES to agree by consensus on the setting up of the Preparatory Committee. That understanding was that services should be dealt with only in the context of the Jaramillo Group.

158. The representative of the United States said that those paragraphs containing the decision of the CONTRACTING PARTIES which established the Preparatory Committee were not open to competing interpretations. The Preparatory Committee was required to take into account the views expressed in the Senior Officials' Group, and services was discussed in that Group.

159. The Chairman said that at its meeting of 17-20 March the Preparatory Committee would complete its examination of the list of subjects indicated in the report of the second meeting, together with any additional matters that might be raised by delegations. If time permitted the Committee would then move on to the next phase of its work.