

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SURVEILLANCE

The following communication, dated 12 June 1986, has been received from the delegation of Australia with the request that it be circulated to all members of the Preparatory Committee.

Integration between trading economies which GATT has fostered in the past 40 years and which has contributed so strongly to economic growth, depends vitally on the transparency and predictability of countries' trade policies, and on the maintenance of an open non-discriminatory trading system.

The GATT has always provided for some degree of notification of policies which are relevant to its provisions and for the surveillance of those policies by contracting parties.

The understanding on notification, consultation, dispute settlement and surveillance, negotiated in the Tokyo Round extended these notifications to include "trade measures affecting the operations of the General Agreement".

The bi-annual Special Council Sessions of the GATT established to conduct the "regular and systematic review of developments in the trading system" provided for in the understanding have also been charged with monitoring the undertakings of paragraph 7(i) of the 1982 Ministerial Declaration to "make determined efforts to avoid measures which would limit or distort international trade".

These notification and surveillance measures have improved the transparency of the trading system and have contributed to a more accurate assessment of the extent to which GATT rules have been respected. Nevertheless, transparency in the bi-annual reviews is still limited by the rather arbitrary data collection procedure and lack of quantification of support measures and their trade effects.

The way forward:

The report "Trade Policies for a Better Future" submitted to the Director-General of the GATT in March 1985 proposed that trade policy and the functioning of the trade system should be made more open through a system of regular reviews of individual contracting parties' trade policies (recommendation No.8).

Given the nature of the GATT, as an Agreement setting out specific rights and obligations, the focus of the surveillance rôle should be on achieving a proper evaluation of contracting parties' adherence to GATT provisions (and agreements reached in multilateral rounds), and through this process to exert influence on domestic protection policies.

Building on both the existing Tokyo Round "understanding" and on the recommendations in the Report to the Director-General, two parallel approaches to an improved surveillance mechanism could be envisaged.

1. Regular Reports by All Contracting Parties

Each contracting party could be invited to make an annual assessment of the protective effect of its policies using some simple measurement techniques according to an agreed reporting format. This report could comprise notifications now required by various GATT Articles and Protocols of Accession or could draw on the notifications forwarded to the GATT over the course of a year. The GATT secretariat would provide guidance on measurement methods and would review measurements to ensure consistency among contracting parties' reports.

The reports would be compiled by the secretariat in a document to be submitted to an annual Special Council Session devoted, in the same way as the present bi-annual Special Sessions, to a review of developments in the trading system. Compared with the way material is presented to the existing Special Session however, the proposed arrangements would permit more concrete and factual assessments of developments against the background of the provisions of the GATT.

(A summary of the report format is contained in the Annex.)

2. Trade Policy Review of Selected Contracting Parties

A number of larger contracting parties could be invited on a rotational basis to provide material for a more extensive occasional review of their trade policies. These reviews - the format of which would be a matter for negotiation - could be conducted on behalf of the Council by a small group of contracting parties (as suggested in the Report to the Director-General) with the assistance of the secretariat. The group of countries invited to submit to such reviews would include all developed country contracting parties as well as the more important developing country traders. Depending on the number of countries reviewed each year, any particular country could expect to be reviewed perhaps once every few years.

The material submitted for these reviews could consist of a report compiled by the secretariat on the basis of information supplied by the contracting party (as well as other information available to the secretariat) which would be submitted in draft form to the contracting party concerned for comment and factual correction. This procedure is well established in OECD Country Reviews and has been employed in GATT Part IV Consultations under the auspices of the Committee on Trade and Development.

By focussing on specific and regular country and policy reviews, some of the weaknesses of the existing surveillance mechanisms should be avoided. The object of the reviews however would be to contribute to a balanced assessment of developments in world trade.

Appropriate institutional arrangements will have to be made for circulating contracting parties' annual reports and for conducting the more intensive reviews of a small number of countries.

An enhanced surveillance rôle for the GATT, based on the principles outlined above, would represent an evolution of the institution's rôle consistent with its traditions but responsive to the greater expectations which contracting parties have approaching the new round of negotiations.

Accordingly it is proposed that the following text of surveillance be included in the draft Ministerial Declaration to launch the new round of multilateral trade negotiations:

"Ministers agree that the surveillance rôle of the GATT should be enhanced to monitor regularly the trade policies of individual contracting parties, including the effect of domestic measures, and to encourage further conformity with GATT rules. They agree that achievement of this enhanced rôle will be an objective of the negotiations."

ANNEXCONTENT OF COUNTRY REPORTS

The objective of the reports will be to permit an evaluation of the external (trade) effect of policies against the background of existing GATT obligations. To achieve this, information will be needed on the economic effects of commercial policies with obvious external effects (e.g. temporary "safeguard" protection) as well as policies whose external effects are more difficult to measure but which are nonetheless within the purview of GATT Articles, waivers, protocols of accession and MTN codes (e.g. certain production subsidies). This latter category would include policies and acts which are not necessarily proscribed by the GATT.

As is the case with present notification obligations, it would be understood that information in the reports "would of itself be without prejudice to views on the consistency of measures with, or their relevance to rights and obligations under the General Agreement". (See paragraph 3 of the Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance).

The following proposed outline of reports by participating countries is based on the need to obtain a minimal level of detail for each country, which is both meaningful and readily achievable and consistent with present notification obligations. It is recognised that where adequate information and resources are available, considerably more detail could be provided and more sophisticated estimation techniques employed. Such additional information would enable a better understanding to be developed of the overall trade impact policies. The proposal also aims to provide an environment whereby countries achieve a better understanding of the effects of their own trade barriers as well as those of their trading partners.

A possible listing of "essential" and "optional" elements of a reporting scheme is presented in Table 1. It can be seen that a country providing only essential information would not face demands upon its resources substantially greater than those imposed by present notification requirements. This information would consist of tariff-equivalent rates of protection for 15 to 20 industry/commodity groups and an assessment of current import shares, exports and employment for each group. However, countries with a longer tradition of measurement and analysis of trade measures should be able to achieve most, if not all, of the optional reporting items. Australia, for example, would be capable of providing information on most optional reporting items.

- a. Those contracting parties enjoying waivers or having specific reporting requirements under Protocols of Accession would be encouraged to include in each regular report information pertinent to the waiver/Protocol.
- b. Data on tariff equivalence (T.E.) should show the relative importance of different measures applied in each industry group. For example, where tariffs and production subsidies both apply to an industry the T.E. of each should be calculated separately.

In addition to the factual information the contracting parties could also be asked to comment on issues such as:

- (a) developments in trade policy and their rationale, including longer term plans if any;
- (b) relevant "industry policy" considerations;
- (c) other economic or social factors (including external factors) affecting policy.

Rôle of the Secretariat

The secretariat would be involved in the country reports at two stages. First, it would prepare a manual to ensure that standardised procedures were followed by each reporting country. Second, it would provide briefing to Council as to the achievement of those standards and the content of the report. In their report, the GATT secretariat could indicate issues which may be considered by Ministers at their own regular meetings.

TABLE 1

<u>Issue</u>	<u>Essential</u>	<u>Optional</u>
Forms of Trade	Tariffs (including	Tax expenditure
Related Policies (a)	specific duties) Anti-dumping and countervailing duties	Concessional Credit Subsidised services
	Quantitative Import and Export Restraints	Export perform- ance requirements
	Production and export subsidies	Phyto-sanitary restrictions
Industry/ Commodity Groups	Trade/industry classified into 15 to 20 categories	A more detailed and complete industry coverage
Basic Statistical Measures	Average tariff equivalents for each of the industry/ commodity groups (b) Import shares of domestic demand for each group Exports for each group	Average effective rates for each group Gross and net subsidy equiva- lents by group Subsidies per worker