

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

PREP.COM(86)SR/6

16 July 1986

Special Distribution

PREPARATORY COMMITTEE

Record of Discussions

Discussions of 5-7 May

1. The Chairman said that, having discussed all the matters raised as possible elements for inclusion in the Ministerial Declaration, the Committee should focus its attention on the question whether a particular matter should be treated in the Declaration and on the precise formulation of recommendations. He drew attention to the documents on specific subjects circulated in the PREP.COM(86)W/ series by delegations and by the secretariat. As far as the secretariat documents were concerned, their purpose was simply to facilitate further discussion. They did not prejudge a decision on the inclusion of the subjects treated in the Declaration and did not purport to reflect all the points made in discussion.

TRADE IN AGRICULTURE

2. The representative of Argentina, in presenting the paper on agriculture put forward by his authorities, said that the forthcoming negotiations provided an important opportunity to improve the application of GATT rules on agriculture, taking into consideration the specificity of the agricultural sector. While governments cited various legitimate reasons for the protection given to agriculture, there had to be limits to protectionism in this sector. In order to preserve the multilateral system it was essential to ensure the continuation of a process of trade liberalization. Agriculture had to be a part of this. In this connection, national agricultural policies also had to be considered, insofar as they had an impact on international trade. Such policies affected access to the domestic market as well as competition in export markets. Both of these elements should be included in the negotiations. Standstill and rollback commitments should be adopted in the agricultural sector, as elsewhere, in order to place the launching of a new round on a secure footing. Developing countries did not have the financial means to intervene in agricultural markets in the manner in which many developed countries did. They did not, therefore, have the same capacity to distort markets. It was for that reason that the draft presented by Argentina concerned only developed contracting parties. The work which had been done by the Committee on Trade in Agriculture, together with the recommendations adopted by the CONTRACTING PARTIES in 1984, provided a good basis on which to begin negotiations. The reference to agriculture in the Ministerial Declaration should be concise and clear, and should not lend itself to more than one interpretation.

3. The representative of Thailand, speaking on behalf of the ASEAN countries, said that the 1984 recommendations of the Committee on Trade in Agriculture provided the appropriate framework for further efforts to improve GATT rules and disciplines as applied to the agricultural sector. These efforts should address such matters as export subsidies, variable levies, quantitative import restrictions, voluntary export restraints, waivers, grandfather legislation, and sanitary and phyto-sanitary measures. The principle of special and differential treatment for developing countries should be fully taken into account in the negotiations. In the new round agricultural issues should be addressed in all relevant fora. It was essential that contracting parties subscribed to a standstill commitment in the agricultural sector in respect of subsidies as well as other protectionist policies. The Food Security Act of 1985 of the United States, commonly called the Farm Act, was a source of particular concern in regard to protectionism in the agricultural sector. This Act allowed the Department of Agriculture, through a loan rate mechanism, to lower significantly United States agricultural prices in world markets. There was also an array of export subsidies that could be made available to agricultural exporters, thereby contributing to further declines in world agricultural prices. Rice was one of the commodities of particular interest to some developing countries which had been adversely affected by these policies. The Farm Act ran the risk of prejudicing current efforts to secure trade liberalization in the agricultural sector and reduced confidence in the GATT multilateral framework.

4. The representative of Australia said that in no other sector was there such an awareness of existing problems and the need for multilateral solutions to correct them as there was in agriculture. The work carried out in the Committee on Trade and Agriculture had been valuable. The mandate for negotiations on agriculture which was currently before the Committee on Trade in Agriculture was even more valuable. It had been endorsed by the CONTRACTING PARTIES, and it only remained for the Preparatory Committee to decide how agriculture was to be handled in the round. However, it was not clear that the 1984 recommendations should be the basis for negotiations on agriculture. In the document presented by Australia on this subject PREP.COM(86)W/28, four elements for the negotiations were identified: i) the negotiations on agriculture would address substantially all measures affecting import access and export competition; ii) the recommendations adopted by the CONTRACTING PARTIES in 1984 would be a key element in the negotiations; iii) the work on possible negotiating options carried out by the Committee on Trade in Agriculture would be taken into account; and iv) the aim of the negotiations would be to liberalize access to markets and to eliminate the use of export subsidies in agricultural trade. If these four elements were adopted as objectives, the necessary basis would have been laid for negotiations on agriculture. Any recommendation to Ministers should contain a specific commitment to phase-out export subsidies, and the following language to this effect was contained in the Australian submission: "As a commitment to the process of liberalization in the specific area of agricultural trade, which is recognised as being subject to an especially high level of restrictions and distortions, Ministers undertake a commitment to phase-out agricultural export subsidies over a ten year period, the details of which will be negotiated in the course of the round". A preferred approach to the Declaration by some delegations was simply to state how subjects were to be discussed. However, this approach did not reflect adequately the exigencies of the situation and in particular the need for clear and specific commitments to trade

liberalization. There existed a real threat of a protracted and costly subsidies war which would increase substantially the costs of financing agricultural trade. Whilst subsidies had been specifically mentioned, there were of course other important issues to be addressed. Waivers, exceptions, quantitative restrictions and all other trade distorting practices should be eliminated.

5. The representative of Chile supported many of the points made by Argentina and Australia and expressed concern that very little time remained before the Ministerial Meeting to agree on recommendations in this and other fields. The negotiations should aim at greater liberalization in agricultural trade along the lines of the recommendations adopted by the CONTRACTING PARTIES at their 40th Session. These recommendations provided a good working basis, even if they could be improved by the incorporation of some of the elements mentioned by Australia.

6. The representative of the United States said that the major issue now before the Committee was the basis on which negotiations in agriculture should be undertaken, and how the matter should be treated in the Ministerial Declaration. The recommendations adopted by the CONTRACTING PARTIES in 1984 on such questions as market access and subsidies provided a reference point for starting negotiations. Due account should also be taken of the work done to date in the Committee on Trade in Agriculture. An agricultural group could be set up under a Trade Negotiations Committee to handle the agricultural negotiations. This would not, however, preclude discussing agricultural issues in other appropriate fora.

7. The representative of the European Communities expressed concern that the present discussion on agriculture was not likely to yield positive results. The discussions tended to assume too much about the position of the Community. He recalled that a number of contracting parties had expressed reservations on the idea of utilising the 1984 recommendations as the basis for negotiations; it was therefore necessary to proceed cautiously. The Community wanted to have agriculture included in the new round, but not at any price. Agriculture should be a part of a well-balanced list of subjects to be dealt with in the new round without any priority. The negotiations should be aimed at restoring order and stability in world agricultural markets and eliminating existing surpluses, for which all bore their share of responsibility, and reducing world over-production. A balanced approach covering all aspects of agriculture would be necessary to ensure that the evolution of world markets was no longer a residual reflection of national production policy, but rather a function of them. Attention should be given to maintaining or restoring a strict balance between rights and obligations under the General Agreement. It was necessary to take into account the legitimate interests of developing countries. The negotiations should not lead to any changes in the basic policies governing agriculture in any contracting party, nor seek to bring pressure to bear on any contracting party to weaken its commitment to its agricultural sector.

8. The representative of New Zealand said that in the field of agriculture the negotiations should aim to achieve increased liberalization, more equitable treatment among trading nations, and increased structural adjustment. To this end the negotiations should focus on the attainment of improved and more secure access to markets and more effective disciplines on

subsidies affecting trade in agriculture. These aims should be pursued on the basis of a comprehensive framework involving strengthened and more operationally effective rules and disciplines as spelled out, inter alia, in the recommendations adopted by the CONTRACTING PARTIES in November 1984. The work undertaken in the Committee on Trade in Agriculture should be given full consideration, in addition to any other proposals consistent with the negotiating objectives. The submission by Argentina contained elements which could provide an excellent basis for the preparation of a programme of negotiations in the agricultural sector. A specific difficulty, however, was the suggestion that all the important disciplines concerned only developed countries. While the major developed countries must bear the prime responsibility for existing problems in agricultural markets, there was no reason why developing countries should be exempted from whatever disciplines were established in this sector. The Australian submission also contained important elements and had the virtue of clarity. There were a number of difficult trade policy issues on the agenda for the new round, besides agriculture, but no other issue had the same potential for causing a lasting breakdown in trading relationships. The Australian proposal should be viewed in this light. It was an ambitious proposal, but commensurate with the gravity of the problems facing international trade in agriculture. The importance of modalities could not be discounted, but these were secondary to the substantive issues. Against that background, New Zealand's view was that any single negotiating group on agriculture which had a power of veto over discussion elsewhere would be unacceptable.

9. The representative of Canada said that his government's priorities in agriculture were threefold. The first was to achieve greater liberalization in the trade of agricultural products through improved and more secure access to markets and more effective disciplines on subsidies affecting agricultural trade. The second was to bring agriculture more fully into the multilateral trading system by ensuring that all measures affecting agricultural trade were covered by common and more operationally effective GATT rules and disciplines. The third was to ensure a more equitable balance of rights and obligations between contracting parties in the field of agriculture. All issues bearing on agricultural trade could be considered together in the first instance, taking account of the specific characteristics and problems of the sector, but the agricultural dimension in other negotiating areas might be considered in any other forum as appropriate. While the Australian suggestions were ambitious, the time had come for ambitious proposals. The proposals put forward by Argentina and the European Community both contained certain elements which Canada could support.

10. The representative of Switzerland said that if the negotiations were to lead to results contracting parties should attempt to negotiate only what was negotiable. It would be useless to base negotiations on premises which ignored or sought to alter certain basic facts. In the current situation there was a real need for more liberalization in the field of agriculture. But such liberalization could only be achieved if there was adequate recognition of such issues as the security of supplies, demographic conditions, and natural resource endowments. The objectives of negotiations in agriculture had to be balanced as between seeking increased trade liberalization and accommodating the specific conditions prevailing in this sector.

11. The representative of Japan said that the recommendations adopted by the CONTRACTING PARTIES in 1984 could provide a useful framework for the negotiations. During the new round of negotiations, contracting parties should aim to formulate international rules which covered all measures affecting trade in agriculture, with a view both to improving the terms of access to markets and to bringing export competition under greater discipline.

17. The representative of Australia said that there appeared to be a consensus that agriculture would be in the negotiations. The question now was how it should be included. However, if there was still any doubt regarding its inclusion, the new round itself would be called into question.

18. The representative of Yugoslavia said that as far as possible, the same principles and modalities of negotiation should be applied to agriculture as to other areas of negotiations. This appeared feasible, for example, with regard to tariff reductions, standstill, rollback, and special and differential treatment. Yugoslavia supported the paper submitted by Argentina and suggested a slight modification of the second part of paragraph 1, so that it would read "in regard to measures inconsistent with the GATT".

19. The representative of the European Communities said that in accepting the establishment of the Committee on Trade in Agriculture in 1982, the Community had clearly indicated that this did not constitute a commitment to any new negotiation nor any new obligation in relation to agricultural products. Therefore a decision to include agriculture in the negotiations did not automatically follow from the Community's participation in the Committee on Trade in Agriculture. It was obvious that the EEC was not going to participate in negotiations if these threatened any vital Community interests.

20. The representative of Cuba said that she supported the document presented by Argentina. This document could serve as a framework for negotiations on this subject.

21. The representative of Brazil said that the document presented by the Argentinian delegation and the two documents presented by the Australian delegation contained useful elements. Brazil could not envisage a new round of negotiations excluding agriculture.

22. The representative of Colombia stated that he supported the proposal presented by Argentina.

23. The representative of Nicaragua expressed her support for the elements contained in the paper submitted by Argentina and the paper submitted by Australia.

24. The representative of the European Communities said that it would not be possible to reach agreement on issues such as this in a large meeting, but the time would come when it would be possible to find a compromise. It was unthinkable to launch a new round without agriculture. But to launch a new round with agriculture in a manner which prejudiced the vital interests of major agricultural producers was simply unacceptable. Some compromise was always possible in circumstances such as these but fundamental principles and objectives must not be challenged.

25. The representative of Argentina said it was insufficient merely to include agriculture in the negotiations. Certain understandings were also required. There was no point, for example, in including agriculture in the new round if it was impossible to negotiate on subsidies, on the consequences of national policies on the international market, on the escalation of distorting measures in the field of agriculture, and on minimum access.

26. The representative of the European Communities referred to the reservation made in 1982 by the Community with regard to agriculture and said it was necessary to create conditions that would permit the Community to modify its position. These conditions would need to ensure the success of negotiations. The Community wished to negotiate agriculture, but only in the context of recognition of the specificity of agriculture and the establishment of an exclusive negotiating body. As long as surpluses existed, then discussions on access to markets, variable levies, restitutions, refunds, and so on, were all marginal to the basic issue. It was necessary to work together to absorb these surpluses in an equitable manner equitable.

27. The representative of Switzerland said that while it was not possible to guarantee the results of the negotiations in agriculture beforehand, a misguided approach at the outset could result in failure. Under present conditions, the negotiations on agriculture should be in two parts. Firstly, it was necessary to establish rules applicable to trade in this sector which recognized its special characteristics. Once this had been done, it would be possible to examine areas where greater liberalization could be achieved. The 1982 recommendations on agriculture could no longer be regarded as entirely satisfactory.

28. The representative of Austria recalled that his country had also made a reservation at the Ministerial meeting in 1982. He fully supported the remarks made by the European Community, the Nordic countries and Switzerland regarding the impossibility of including agriculture in the negotiations without taking its specificity fully into account.

29. The representative of Argentina said that in earlier years Community surpluses had been sporadic. Now the Community expected others to share in reducing surpluses which were endemic to its policies. These surpluses would continue to grow in the absence of negotiations, and this was why negotiations were urgent.

30. The representative of India said that references in previous interventions to the concept of specificity raised the question whether it was the specificity of agriculture as such or the specificity of negotiations in agriculture that was at issue. It would be useful if this matter was clarified. He expressed his concern at a previous statement that the 1982 Ministerial Declaration was now considered deficient. Regardless of whether this referred to agriculture alone or to the Declaration more generally, such an attitude to decisions and agreements reached by the CONTRACTING PARTIES at Ministerial level in 1982 would put the results of the work programme pursued since 1982 in jeopardy. Finally, he said that he sympathized with the approach suggested by Argentina to negotiations in the agricultural sector.

DISPUTE SETTLEMENT PROCEDURES

31. The representative of the United States said that the new round represented an opportunity to improve the dispute settlement procedures of the GATT. Procedures that were seen to be effective and expeditious were signs of a healthy and expanding trading system. While the present procedures had performed on the whole reasonably well, they still had some conspicuous shortcomings. The dispute settlement process took too long, some panel reports had been too vague or had contained flawed reasoning. Some parties had blocked the adoption of the reports or had delayed their implementation. Dispute settlement should figure in the negotiations under the general category of improving the GATT system. The purpose of the negotiations should be to improve the dispute settlement procedures further, to enhance mediation possibilities and to reinforce the contracting parties' will to implement panel reports in a timely manner.

32. The representative of Norway, speaking on behalf of the Nordic Countries, said that efforts to improve the dispute settlement process should not focus on the procedures as such but on the problems caused by a lack of will of contracting parties to make a proper use of the procedures and on rules that were too vague to be meaningfully interpreted or subject to longstanding divergent interpretations. No procedural shortcuts would ever resolve these fundamental problems.

33. The representative of Japan said that the Ministerial Declaration should make clear that one of the aims of the round was an improvement of the dispute settlement procedures, including improvements that would ensure a more efficient use of the 1979 Understanding. The Declaration should indicate the general direction of the negotiations as outlined in paragraphs 6 and 7 of the Secretariat paper, but not specific proposals for reform as suggested in paragraph 8.

34. The representative of Indonesia, speaking for the ASEAN countries, stated that recent experience in the area of dispute settlement had undermined confidence in the GATT legal system. The improvement of the dispute settlement process was therefore of utmost importance. An improvement of the procedures would however be pointless if, due to lack of political will, panel reports were rejected or not implemented. Effective dispute settlement procedures protected the interests of the developing countries, in particular in disputes with more powerful trading partners. Some of the recent problems had not arisen from procedural deficiencies but from divergent interpretations of substantive GATT rules. These problems should be rectified as expeditiously as possible.

35. The representative of Switzerland agreed with the statement of Norway and responded in the affirmative to questions 6, 7 and 9 of the Secretariat document.

36. The representative of Australia described the problem of dispute settlement as an essentially institutional problem. It had to be resolved in the new round, if not before it. The subject should be included in the Ministerial Declaration. The question of whether the parties to the dispute should participate in the adoption of panel reports and whether there should be time limits for the establishment of panels, for the preparation of panel reports and for their implementation were among issues which should be taken up in the negotiations.

37. The representative of Czechoslovakia said that there was need to secure a higher level of commitment to support the dispute settlement procedures and to abide by their results. The contracting parties, in particular the major trading nations, should exercise restraint in their disputes and accept adverse panel recommendations. He responded in the affirmative to the question in paragraph 7 of the Secretariat paper.

38. The representative of the European Communities agreed with the United States that lengthy procedures and vague reports had been a problem. He cautioned that the dispute settlement procedure could not be turned into a substitute for negotiations and lead to the creation of new obligations unacceptable to contracting parties. However, an effort should be made to improve the procedures to facilitate conciliation and compromise. Contracting parties who supported the GATT dispute settlement procedures should avoid delays in the constitution of panels. There should be a commitment to resolve disputes within the framework of the GATT procedures. The representative of the EEC replied in the affirmative to the questions in paragraphs 6 and 7 of the Secretariat paper. The Ministerial Declaration should contain broad guidelines for the negotiations, not specific recommendations as suggested in paragraph 8. The EEC could accept a strengthened commitment to abide by the results of dispute settlement procedures, as suggested in paragraph 9, if this meant abiding by the recommendations of panel reports that had been adopted.

TROPICAL PRODUCTS

39. The representative of Colombia said that the objective of negotiations in the field of trade in tropical products should be complete trade liberalisation. Negotiations should cover all natural products and the products processed or semi-processed from these products. He recalled that no precise definition of tropical products had been agreed and suggested that the negotiations proceed on the same basis as earlier consultations with respect to definition. In regard to measure coverage, tariff negotiations should address the problem of tariff escalation. Internal taxes and levies should be included among non-tariff measures to be negotiated. Negotiations on tropical products might be concluded, and their results implemented, before the completion of negotiations on other matters. Tropical products represented a very special sector which had been the subject of very intensive consultations. The ground had been well prepared for negotiations and interested exporting developing countries had already submitted their lists of requests. As far as the question of reciprocity in negotiations was concerned, paragraph 5 of the Enabling Clause was the relevant point of reference. The Ministerial Declaration should recognise explicitly the importance of the tropical products sector for the negotiations, and specify that the objective of the negotiations would be complete liberalisation of the whole sector. Negotiations should be completed within one year and their results implemented immediately.

40. The representative of Bangladesh said that the main objective of the negotiations should be complete liberalisation of trade in tropical products, including in their processed and semi-processed forms. A significant improvement in market access for such products represented a priority for most developing countries in any global negotiations. Many of these countries, and especially the least developed among them, were critically dependent on tropical products for their export earnings. In regard to product coverage, jute and jute products, other fibres, vegetable oils, other beverages etc., were among those earlier recognised as tropical products. These should be included in negotiations. In the field of non-tariff measures, variable levies, internal taxes, subsidies and technical barriers should all be fully covered in the negotiations. A short and special timetable, both for the negotiations and for the implementation of concessions on tropical products should be agreed. It was important to ensure the adequate application of the principle of non-reciprocity in regard to concessions negotiated in the field of tropical products.

41. The representative of Cuba said that the objectives of the negotiations on tropical products should be full and prompt trade liberalisation. The negotiations should cover all tropical products and all non-tariff measures, including internal taxes. A calendar should be drawn up for the liberalisation of trade in tropical products independently of the rest of the negotiations. The implementation of results on tropical products should not be conditional upon the results of negotiations in other areas. The provisions of the Enabling Clause relating to reciprocity should apply not only in the field of tropical products, but to the negotiations as a whole.

42. The representative of Sri Lanka said that the objective of negotiations in tropical products was to ensure free access for these products. A commitment to this effect had been made as long ago as 1963. Negotiations should cover all tropical products in their primary, semi-processed and processed forms. Both tariff and non-tariff measures should be covered, including in the latter category internal taxes and levies. The negotiations should be concluded and results implemented in advance and independently of negotiations in other sectors. There should be no reciprocity sought from developing countries in this sector.

43. The representative of the Philippines, on behalf of the ASEAN countries, said that the objective of negotiations on tropical products should be to secure unrestricted, duty-free access for exports from developing countries. He noted that the commitment to liberalise trade in tropical products undertaken in the early 1960's was based on a recognition of the importance of tropical products to the export earnings and economic development of developing countries. Full liberalisation of trade in tropical products should cover primary, semi-processed and processed products as well as tariffs and non-tariff measures. Preparatory work undertaken in the Committee on Trade and Development had identified the products and measures to be covered in a trade liberalization exercise without prejudice to further improvements. A special and short timetable for negotiations in tropical products and the implementation of concessions for developing countries would stimulate negotiations in other areas and instill confidence in the new round. Special and differential treatment for developing countries should be observed in line with Article XXXVI of the General Agreement. Finally, standstill and rollback commitments should be applied to tropical products.

44. The representative of Peru said that the main objective of negotiations in the field of tropical products should be full liberalisation. The negotiations should cover primary, processed and semi-processed tropical products, both with respect to tariff and non-tariff measures. Particular attention should be given to tariff escalation and internal taxes. A special and short timetable for the liberalisation of trade in tropical products should be agreed. It was clear that the provisions on non-reciprocity contained in paragraph 8 of Article XXXVI of the General Agreement and in paragraph 5 of the Enabling Clause should guide the negotiations.

45. The representative of Zaire recalled that his country's views on the subject of tropical products were reflected in PREP.COM(86)SR/2 and the position had not changed. This position had been well summarized by the representative of Colombia.

46. The representative of Japan supported the view that tropical products should receive special treatment as a priority sector in the negotiations, and this should be clearly stated in the Ministerial Declaration. The specific modalities of the negotiations on tropical products should be addressed during the negotiations. Although it was possible to start the negotiations on tropical products at an early stage in the new round, the negotiations should be considered as one undertaking. Negotiations on various subjects should move forward together, on the understanding that certain results could be implemented early if the progress of the negotiations as a whole was satisfactory.

47. The representative of Norway, on behalf of the Nordic countries, said that he saw no need to establish special objectives for negotiations in the field of tropical products. Negotiations should aim at the fullest possible liberalisation of trade in these products. Furthermore, the Nordic countries would expect reciprocal concessions on the part of developing countries consistent with their individual development, financial and trade needs. Although there were merits in trying to specify already at this stage the product coverage, types of measures, and modalities for implementation of concessions, it was not clear that the Ministerial Declaration should be too specific on these points. At least some of them would have to be spelled out in greater detail during the negotiations themselves.

48. The representative of Uruguay expressed support for the interventions made on this subject by developing country representatives, including those of Colombia and Peru.

49. The representative of Yugoslavia said that tropical products should be treated as a priority subject for negotiations, and she supported the statement made by the representative of Colombia.

50. The representative of the United States said that tropical products should be included in the negotiations with the objective of achieving further liberalisation of restraints to trade in this area. The work carried out by the Committee on Trade and Development in regard to its 1982 Ministerial mandate provided a good basis for such negotiations to be undertaken expeditiously. The United States was both a consumer and a producer of tropical products and was therefore aware of the diverse issues which arose in this field. Negotiations on these products might best be conducted in different groups, including groups addressing agriculture and market access.

51. The representative of Jamaica said that the note by the secretariat had omitted to mention the possible need for a more comprehensive approach to several tropical products, which might go beyond trade liberalisation to include measures aimed directly at trade expansion. Such an approach could involve commodity agreements or arrangements, an examination of markets including commodity exchanges, and an examination of whether the tariff and non-tariff protection constituted the main obstacles to the expansion of trade in tropical products. The comments and proposals made by Côte d'Ivoire, Jamaica and India, among others, should have been referred to in the secretariat note. In addition, the note should have acknowledged that some countries, including Jamaica, enjoyed contractual arrangements which provided them with certain advantages in the area of tropical products, and the modalities of the negotiations should accommodate the export interests involved. Another point for consideration was whether tropical products might be brought under future work in agriculture. The fact that the original commitment to trade liberalisation in the tropical products field was made as far back as 1963, and that little had been achieved, suggested that different modalities for negotiations should be examined.

52. The representative of Pakistan said that his delegation opposed the suggestion that the subject of tropical products might be included within the discussion on agriculture. In 1982 the Ministers had earmarked tropical products for separate and special treatment and such treatment was clearly needed. The negotiations on tropical products should lead to duty-free and quota-free entry for all relevant products. This objective had been set in GATT as far back as 1963. In the new round tropical products should be treated as a priority sector. The negotiations should be completed and their results implemented within a period of two years from the launching of the new round. The negotiations should be conducted within the context of special and differential treatment for developing countries, as set out in Part IV of the General Agreement.

53. The representative of India expressed concern over the suggestion that some aspects of the issue of tropical products might have to be looked at in other contexts, including agriculture. It was unlikely that such an approach would speed up progress or facilitate negotiations on tropical products. Despite the priority attention given to this sector since the 1960's, progress had been disappointing. It was time to ensure that in the context of wider trade liberalisation efforts, complete duty-free and quota-free access would be achieved for tropical products in all stages of processing.

54. The representative of the European Communities said that he supported the inclusion of tropical products in the new round with the aim of achieving the maximum liberalisation possible. In regard to certain contractual arrangements referred to by the representative of Jamaica, he said that it was necessary in the negotiations to respect the interests represented by these arrangements. He agreed with the representative of the United States that it might be desirable to carry out negotiations on tropical products in different negotiating areas. He recalled that the consultations held in pursuance of the 1982 Ministerial Declaration showed that some tropical products quite clearly belonged to agriculture. He also agreed with the representative of Japan that the new round should be seen as a single undertaking and that progress should be made in parallel in the various different fields of negotiation. Individual countries would be interested in particular aspects

of the new round, depending on their situation. Developing countries would be particularly interested in the results for tropical products, but there were also developed countries who exported tropical products. The question of the degree of reciprocity required in negotiations would turn on the level of development of individual countries benefitting from the negotiations. Some developing countries could make a greater contribution than others. One of the objectives of the new round was to achieve an improved balance of obligations in general, and in accordance with the level of development reached by all contracting parties.

55. The representative of Australia said that negotiations on tropical products should be given priority and should aim at total liberalisation of tariff and non-tariff measures in this area. The emphasis should be on tariff de-escalation. There should be a standstill on both import and export measures affecting tropical products. In regard to the question of what particular non-tariff measures should be covered in negotiations, he acknowledged the problems raised by the existence of different obligations among contracting parties. One category of non-tariff barrier which might be examined was subsidies. Until recently it was the understood rule in GATT that it was prohibited to subsidise a primary input into a manufactured product. That prohibition was spelled out in Article XVI:4 of the General Agreement and it was the understanding of the majority of signatories to the Subsidies Code that this obligation had been carried over into the obligations assumed under the Subsidies Code. However, those trading partners which had difficulty in meeting this obligation were now arguing that it never existed. The problems to which this interpretation gave rise were well illustrated in the field of tropical products. The subsidisation of, for example, coffee and cocoa as inputs into manufactured products showed how this problem affected developing countries.

56. The representative of Canada said that increased liberalisation of trade in tropical products should be an important and priority subject for negotiation in the next round. However, most tropical products already entered Canada duty-free and those that still faced import duty were sensitive products that would be difficult to include under further liberalisation measures. Nevertheless, he expressed readiness to examine possibilities for further liberalisation in relation to all tropical products. However, developing country exporters should not look only at the markets of developed countries but also at access into other key markets. He said that his country did not expect full reciprocity from developing countries in this sector but would expect them to make a contribution in line with their level of development. The modalities for negotiations on tropical products would have to be worked out and it may be that there would be an overlap between discussions in this sector and those on agriculture or tariffs.

57. The representative of India disagreed with the view that improved access for tropical products would depend upon the ability of developing countries to contribute to the process of trade liberalisation. Liberalisation of trade in tropical products had long been accepted as a priority matter for developing countries and it was inappropriate to suggest that new conditions now had to be fulfilled before long-standing commitments in this matter could be met.

58. The representative of Colombia said it appeared that the Committee was not even able to arrive at the point of agreement reached in 1973 in the Tokyo Declaration. Although the Tokyo Round itself had been disappointing, the Tokyo Declaration had at least reflected the intention to ensure special treatment for the tropical products sector. Problems confronting tropical products were very different from problems in the agricultural sector in general, and there was a strong case for arguing that tropical products should benefit from special treatment in the negotiations. Consultations had already been carried out on tropical products and lists of requests had been submitted. It would be unreasonable to expect developing countries to wait until the end of the new round before implementing results on tropical products. Negotiations on subjects like agriculture would likely take a long time to complete. The proper application of paragraph 5 of the Enabling Clause would ensure that the question of reciprocity was adequately dealt with in the negotiations.

59. The representative of Jamaica said that the issue of commodity price stabilisation had been introduced in one of the previous meetings and was clearly relevant to tropical products. There was also a connection between tropical products and agriculture as far as certain commodities were concerned. Sugar was perhaps one such commodity. He said that his earlier references to these issues were intended to suggest that the secretariat should be considering how to condense the present list of subjects into a manageable negotiating framework.

60. The Chairman said that the Committee was not trying to improve papers which the secretariat had already issued, but rather to draft a declaration for Ministers. The notes by the secretariat had been presented in order to provide reference papers for the discussion and to try to assist delegations in their examination of various issues.

61. The representative of Colombia said that the subsidies issue as such was not related particularly to tropical products. Subsidies granted by certain trading partners on tropical products, such as sugar or cotton, could be discussed in the context of agriculture in order not to complicate and delay negotiations on tropical products. Likewise, the question of prices for tropical products could be looked at, but it should be borne in mind that other international organisations were competent with such questions.

62. The representative of the European Communities said that it was also his view that subsidies on tropical products should be dealt with in the context of trade in agriculture. In regard to commodity prices he also noted that there were other international bodies which addressed this matter, and it might be better to leave it to such bodies. Concerning reciprocity, he said that systematic reciprocity was not expected in negotiations on tropical products. However, what was expected was a better balance of obligations on a global basis. It would, therefore, be quite normal that developing countries which had achieved a certain level of development would be able to contribute more to the negotiations than those which were less competitive, such as the least-developed countries.

63. The representative of Jamaica, referring to the last two interventions, expressed the hope that any GATT negotiations would take account of Article XX which was relevant in regard to the points which had just been raised.

QUANTITATIVE RESTRICTIONS AND OTHER NON-TARIFF MEASURES

64. The Chairman opened the discussion of quantitative restrictions and other non-tariff measures by drawing attention to a secretariat paper which had been circulated as PREP.COM(86)W/7.

65. The representative of the European Communities noted that significant barriers to trade were still being posed by the continued existence of a number of quantitative restrictions, as well as by other non-tariff measures, some two hundred of which were notified in the inventory of non-tariff barriers. His delegation favoured finding a means by which all contracting parties maintaining such measures could undertake to liberalise them to the greatest extent possible. This should be undertaken progressively and collectively, to ensure the burden of liberalisation would be shared. This might be one of the objectives to be achieved in the new round. Concerning the points for further discussion in PREP.COM(86)W/3, his delegation did not consider it important to distinguish between measures in conformity with, and those not in conformity with, the provisions of the General Agreement. Trade barriers had to be eliminated, whatever provision or Article might be invoked. Concerning the question regarding the negotiation of quantitative restrictions, he did not believe that it was time to start thinking of specific negotiating techniques. He added that the negotiation of non-tariff measures would be a difficult task. While some non-tariff measures had a multilateral impact and thus there would be a collective interest in dismantling them, others concerned only one or several contracting parties and would be negotiated bilaterally or plurilaterally. This had been one reason why the Working Party had not yet been able to suggest any negotiating techniques or formulas to cover non-tariff measures found in the inventory. In this context, he called attention to the idea raised by a number of contracting parties of replacing a quantitative restriction or non-tariff measure by a bound tariff in order to facilitate their inclusion in a future cycle of negotiations. This idea merited further consideration and might be explored during the first stages of the new round while deciding on negotiating methods. He added that it might be possible to take up at an early stage those sectors which were of greatest interest to developing countries in which a number of quantitative restrictions or non-tariff measures were still prevalent.

66. The representative of Israel felt that a distinction should be drawn between those quantitative restrictions which were in conformity with the General Agreement and those which were not. Quantitative restrictions not in conformity with the General Agreement should be dealt with under rollback obligations, under which measures inconsistent with GATT or not based on specific GATT provisions would have to be eliminated outside the process of the negotiations.

67. The representative of Australia believed that it was generally accepted that there was an identifiable distinction between quantitative restrictions which were consistent with the GATT, and those which were not. This distinction, which appeared in the Ministerial Declaration of 1982, should be maintained in any declaration, and in any obligation undertaken in respect of that declaration, to be drafted for the Ministers in September.

68. The representative of Switzerland said he had serious reservations concerning the suggestion that contracting parties should make a common effort to eliminate existing quantitative restrictions on a burden-sharing basis, independently or irrespective of their legal status. By what criteria would the burden-sharing formula be evaluated and implemented? It was true that many quantitative restrictions, whether in conformity with the GATT or not, were maintained in spite of the rules. However, the General Agreement was a system of rules governing the conduct of trade policy. Therefore, one should begin by adjusting the rules to make them more efficient and capable of restoring order to the use, and phasing out, of quantitative restrictions rather than by modifying existing trade policies independently of rules. This approach would help restore respect for, and conformity with, the rules. He agreed that non-tariff measures were very important and their impact on multilateral trade had to be taken into account. However, while the long-standing idea of transforming non-tariff measures into tariffs so that they could be dealt with according to the classical methods used for tariffs was very appealing theoretically, it was not practical because many of these non-tariff measures had legitimate non-trade purposes and could not be replaced by instruments whose effects were purely commercial. He suggested instead that work might be carried out to harmonise non-tariff measures, and in some cases to eliminate them, on the basis of the underlying reason for the existence of the measure. He acknowledged that this approach, which was relatively new, might be difficult to pursue.

69. The representative of Czechoslovakia said that document PREP.COM(86)W/7, prepared by the secretariat, contained the main points expressed in earlier discussions, including those of his delegation. Specific suggestions made by his delegation on this subject to be included in the Ministerial Declaration had been fully reflected in document PREP.COM(86)SR/2 and should be considered as an answer to many questions contained in the secretariat note. The debate in the Committee indicated that liberalization of quantitative restrictions and other non-tariff barriers should begin with standstill and with the removal without compensation of those restrictions and measures inconsistent with GATT. The Committee should recommend that such measures be phased out prior to launching the new round. One of the shortcomings of the last multilateral trade negotiation had been its failure to address satisfactorily the problem of quantitative restrictions, particularly discriminatory ones. Contracting parties should therefore use the new round as a means to make progress in liberalizing quantitative restrictions and other non-tariff barriers.

70. The representative of the European Communities clarified his delegation's views regarding the transformation of quantitative restrictions into tariffs. They did not believe the types of non-tariff measures which were included in the Inventory would lend themselves to transformation into tariffs. However, the older quantitative restrictions for which no solution had been found in earlier trade rounds and which involved the protection of a product might be capable of conversion into tariffs. This might provide a means of bringing these measures into conformity with the General Agreement. He noted that the issue was one of conformity and not legality, as there was no tribunal in GATT to judge whether they were or were not legal. A tariff would facilitate dismantling the measure at a later date and would also avoid debate on the discriminatory and non-discriminatory use of these measures. His delegation would be ready to re-examine all the Articles of the General Agreement concerning quantitative restrictions and to adjust the rules and make them more precise.

71. The representative of Japan said that one of the most important objectives of the new round was the expansion and greater liberalization of world trade through further reduction and elimination of trade barriers. Therefore, the new round should aim at further reducing and eliminating non-tariff measures, including quantitative restrictions, and should also review the MTN Codes in such areas as subsidies and technical barriers. As the Government Procurement Code was in the process of being modified, it was advisable to wait for the results of this work before deciding whether a review of this Code was needed. In response to the questions put forward in the secretariat note PREP.COM(86)W/7, his delegation believed that the new round should address the possible reduction and elimination of quantitative restrictions whether or not they were in conformity with the General Agreement, bearing in mind the work done so far in existing GATT committees and groups. Existing quantitative restrictions of a discriminatory nature which were maintained by some countries should be eliminated as early as possible, without waiting for the launching of the new round of negotiations.

72. The representative of Chile, in response to the representative of the European Communities, suggested that it would be useful to have an analysis of these Articles of the General Agreement dealing with quantitative restrictions. His delegation considered that the recommendations made to Ministers should include the objective of the elimination of all restrictions, including restrictive policies which depress prices, generate unmanageable surpluses and thus distort competition. Quantitative restrictions and other measures of equivalent effect which, though justified under the General Agreement, had a negative impact on access to markets should also be limited or eliminated. Chile favoured strict application of the obligations of the General Agreement, in particular Article I and Article XI, to quantitative restrictions and to non-tariff measures as well as to the so-called grey area measures. Quantitative measures not in conformity with the General Agreement should be eliminated immediately, not through negotiation. Any other approach would constitute a serious injustice to countries which had fully respected their GATT obligations. Discussions on the implementation of the General Agreement with respect to quantitative restrictions might need to be coordinated with those concerning dispute settlement procedures. Quantitative restrictions in certain sectors of special interest to the developing countries should be eliminated immediately.

73. The representative of Hungary said that his delegation shared the view of the Japanese delegation that all quantitative restrictions had to be eliminated, whether or not they were in conformity with the General Agreement. The distinction between these two types of quantitative restrictions was very important, however, and should be reflected in the Ministerial Declaration and in the negotiations in order to ensure that countries would not be expected to grant concessions for the elimination of those restrictions which were not in conformity with the GATT and thus should be eliminated without compensation. Furthermore, the income derived from these measures affected the balance of rights and obligations under the GATT, and the maintenance of such measures in the framework of the new round could impair the eventual concessions granted on products to which they applied. As to the possibility of transforming some restrictions, perhaps the long-standing residual restrictions into tariffs, he asked whether those countries which had maintained these restrictions contemplated paying compensation to contracting parties whose exports had been damaged by them.

74. The representative of Argentina said that his delegation fully shared the views expressed by Australia on this question. Concerning the last intervention made by the representative of the European Communities, his delegation could not accept the suggestion that quantitative restrictions maintained under all Articles, including Article XVIII, the conditions for which were very clearly defined in that Article, should be subject to a plan of elimination. This Article concerned the autonomous issue of restrictions taken for balance-of-payments reasons and was not negotiable.

75. The representative of the European Communities said they had not proposed to examine the many Articles of the General Agreement under which quantitative restrictions might be maintained. There were indeed many Articles on which quantitative restrictions could be based and be in perfect conformity with the GATT. But the measures had the same trade-restrictive effect. His delegation thus attached importance not to whether or not restrictions were justified, based on a particular Article, or were in conformity or not with the General Agreement, but rather, as had been said by the representative of Japan, to the liberalisation of trade through a new cycle of negotiations and thus the elimination of quantitative restrictions, and in particular, of the residual quantitative restrictions which had existed for forty years and had been discussed in various GATT fora without arriving at any means of eliminating them. His delegation was reflecting on new ways to eliminate these measures, perhaps by transforming them into bound customs duties, which could then be reduced during the negotiations.

76. The representative of Chile quoted from the conclusions of the Ministerial Meeting of May 1963, whose text dealt with quantitative restrictions: "Quantitative restrictions on imports from less-developed countries which are inconsistent with the provisions of the GATT shall be eliminated within a period of one year. Where, on consultation between the industrialised and the less-developed countries concerned, it is established that there are special problems which prevent action being taken within this period, the restrictions on such items would be progressively reduced and eliminated by 31 December 1965." He observed that it was now 1986.

77. The representative of Switzerland repeated his delegation's position that a long-term solution to this problem would necessitate an improvement of the rules. This might even include ending all quantitative restrictions although tariffs could be introduced or quantitative restrictions replaced by tariffs under certain conditions. However, rules were necessary to make trade policies predictable, to establish criteria by which these policies could be evaluated multilaterally, and to create a lasting liberalization.

TARIFFS

78. The delegate of Argentina said that it was in the interest of all contracting parties to resolve the problem of tariff escalation, focusing on specific trade areas and including subjects of particular interest to developing countries. As to the contribution of these countries, he referred to a document on special and more favourable treatment which had been distributed recently by India on behalf of the developing countries. The capacity of developing countries to make tariff bindings depended on their interests and how these interests were taken into account in the negotiations. Tariffs on agricultural products should be submitted to the same processes of elimination or reduction as on industrial products, although the approach to agriculture should be much more ambitious as this sector had been neglected in the past. At a given point of time it would be necessary to examine the influence of preferential tariffs under Article XXIV agreements, in particular as to how preferential agreements affected GSP tariff margins in favour of developing countries.

79. The delegate of Singapore stated that ASEAN recognized that tariff negotiations remained an important item in the new round, particularly for products of export interest to developing countries. While the average level of tariffs in developed countries had progressively been reduced as a result of previous rounds of trade negotiations, the problems of tariff peaks and tariff escalation on products processed from raw materials, many of which were of particular interest to developing countries including ASEAN, still remained unresolved. These high tariffs restricted market access to exports and inhibited the development of processing industries. This problem should be addressed with urgency in the new round. Reduction and elimination of tariffs would certainly contribute significantly towards the trade expansion which the new round sought to achieve. Developed countries should strive to eliminate or substantially reduce tariffs on industrial and agricultural products. ASEAN supported the proposal for advanced implementation of tariff cuts before the end of the negotiations, whether in general terms or at least for products of interest to developing countries.

80. The delegate of the United States noted that average tariff levels in developed countries had been progressively reduced in previous rounds of negotiations and were now relatively low. Non-tariff barriers had therefore become the focus of attention. However, the United States believed that there were two remaining areas where tariff restrictions needed to be addressed. The first concerned sectors where trade was still impeded by high duties. The sectors of interest were different for various countries but it could be agreed that the new round presented an opportunity to seek further liberalization in this area. The second area concerned the fact that many tariffs maintained by a number of contracting parties were not bound. This was an additional area where developing countries in particular could provide a contribution to the negotiations. With respect to the approach to be taken to these negotiations, the United States saw tariff liberalization as part of an overall objective of increased market access which might include negotiations on product-specific barriers as well. The questions of timing and techniques for tariff reduction, however, required further discussion.

81. The representative of the European Communities said that the timing of the renegotiations leading to the implementation of the Harmonized System should be respected. The Harmonized System, to be implemented on 1 January 1988, would give a better basis for the tariff negotiations in general. The time-table for the tariff negotiations should be examined at a later stage. The Community was attached to the elimination of trade barriers, especially in the form of tariff peaks and tariff escalation. On the elimination of low tariffs, the speaker said that even low duties may play an important rôle; they had been discussed for years in many negotiations without achieving their elimination. In the tariff area, developing countries could make one of their most efficient contributions, i.e. a larger number of bindings. Agricultural tariffs had to be dealt with in a special framework.

82. The delegate of Japan stated that negotiations on tariffs would be an important component of the new round. The techniques to be used for the negotiations had to be examined carefully in view of the lack of preparation in this area. The work for the introduction of the Harmonized System must be completed as soon as possible, otherwise there would be no solid foundation on which the tariff negotiations could be based. For the new round, the merit of a formula had to be examined, bearing in mind the generally low average level of tariffs. Tariff escalation also needed to be taken into account. As for tariffs on industrial products, Japan had proposed that all industrialized countries should aim to reduce their tariff rates to zero. On tariffs for agricultural and fishery products, the approach should take into account the special characteristics of this sector. The scope of tariff bindings also needed to be expanded through the negotiation. The Ministerial Declaration should provide a general objective for the negotiations on tariffs, to the effect that they should be conducted by employing appropriate methods with a view to reducing and eliminating tariffs and expanding the scope of tariff concessions.

83. The delegate of Czechoslovakia said that the question of tariffs was clearly one of the key issues in a new round. Czechoslovakia was of the opinion that a harmonization formula along the lines of the Tokyo Round formula might be used. Tariff peaks and general tariff levels in certain sectors remained still very high. The Ministerial Declaration should include appropriate recommendations, as to which Czechoslovakians had made a concrete proposal in the second meeting of the Committee.

84. The delegate of Canada stated that tariffs must be a part of the new round. It was hoped that all participants would be able to come to the negotiating table with a capacity to eliminate tariffs. Canada had made clear its continuing interest in the question of tariff escalation and hoped that the Declaration would highlight the importance of that issue. The level of tariff bindings, particularly by developing countries, also needed to be addressed and could represent an important contribution by these countries in the negotiations. Canada also agreed that it was important to conduct the negotiations on the basis of the Harmonized System.

85. The delegate of Sweden, speaking for the Nordic countries, said that the negotiations should aim at enlarging the extent of tariff bindings, thereby achieving a better balance of obligations among contracting parties and increased security for traders. Further progress should also be made in reducing or eliminating tariff peaks, and tariff escalation should be dealt with. The Nordic countries were interested in discussing the issue of suppliers' rights under Article XXVIII. The question of advance implementation of tariff concession was something that would have to be dealt with as an element of the negotiations. The Tokyo Round formula could be a useful one. It would be very welcome if developing countries could also make a contribution by increasing the number of their tariff bindings, bearing in mind their respective levels of development. The question of agricultural tariffs deserved more than a simple answer and should be reverted to at a later stage.

MTN AGREEMENTS AND ARRANGEMENTS

86. The representative of the European Communities said that while the Codes had been useful, there was room for improvement in certain areas, particularly in the agreements on Technical Barriers to Trade, Government Procurement and Subsidies. Continued work in the context of the Subsidies Code was needed in order to reach conclusions on the definition of subsidies and on the application of countervailing duties. Work would also be necessary on agricultural subsidies, but his delegation had already made clear their position on how this should be done. Concerning the points for further discussion raised in the secretariat note, the best way to promote the unity and consistency of the GATT system would be for more contracting parties to accede to the Codes. The problems developing countries were encountering in acceding to the Codes should continue to be examined in the course of the work of the specific Committees or Councils. It was too early to determine how the Codes might be reviewed in the context of the new round. While there were some arguments in favour of limiting a review of the interpretation of existing obligations to those who had undertaken them, appropriate arrangements would have to be made to ensure that maximum transparency was maintained in such an exercise. In any event, progress made in this area should not discourage greater participation in the Codes in the future.

87. The representative of India said that were the MTN Codes to be included in the new round of negotiations, certain concerns, such as the need for fuller participation in the Codes and the need to maintain the unity of the GATT system, would have to be addressed. It was unclear, so far, what the justification was for including the MTN Codes in the proposed round of negotiations, as opposed to addressing the relevant issues in the specific Committees or Councils. By including the Codes in the proposed new round, would this mean that they were open for renegotiation? If participation by non-signatories to the Codes was limited in any renegotiation exercise, there was a danger that the participation of developing countries in these Codes might be further limited.

88. The representative of Colombia said that the Codes had become a parallel system to that of the General Agreement, with the participation of only some contracting parties. The operation of the Codes must be made more transparent for those contracting parties who, for a number of reasons, had decided not to participate in the different Code Committees. The issue for those countries was not merely a matter of not wanting to participate, but of not being able to participate. The reports of the Code Committees or Councils provided insufficient detail concerning what had been done. This system of reporting should be reviewed, as should the possibility of integrating these Committees into the multilateral system of GATT. He referred to a statement made by Argentina in the Senior Officials' Group concerning a common format for the reports of these Code Committees and how they should be discussed. These proposals, and the conclusions of the Working Group on MTN Agreements and Arrangements, should be taken into account in any new exercise in this area. While discussions on the Subsidies Code had been left pending, for the time being, his delegation was willing to continue working towards a resolution of difficulties which had arisen.

89. The representative of Chile supported the intervention made by the representative of Colombia. The failure of the Committee on Subsidies and Countervailing Measures to adopt three panel reports illustrated that the problem of the Codes was closely linked to the problem of dispute settlement. His delegation thus supported a recommendation in the direction of a thorough analysis, and if necessary a renegotiation, of the dispute settlement mechanisms contained in the various MTN Agreements and Arrangements.

90. The representative of the United States said his delegation viewed the MTN Agreements and Arrangements as dynamic instruments, which at the time of their negotiation had represented a major new thrust in trade liberalization under GATT. While his delegation's experience with these agreements had been very positive, certain areas within the agreements needed improvement, clarification or extension. This should be reflected in the Ministerial Declaration.

91. The representative of Jamaica said that the issue of the unity and consistency of the GATT system concerned not only the drafting of the rules, but also the establishment of principles and the manner of their implementation. This was why transparency was so important in the GATT and why his delegation, among others, had insisted that contracting parties through non-members of the Codes were to be granted a sufficient degree of participation in the Code Committees. The point made in paragraph 3 of PREP.COM(86)W/19, reflecting the view of some delegations that the MTN Codes could not become part of the General Agreement as long as fewer than sixty contracting parties agreed to accept the Codes' additional obligations, raised a number of questions regarding the relationship of the Codes to the General Agreement. Were these Codes an integral part of the framework of the GATT, and if so, were they consistent with the GATT? Would a new round of negotiations provide an opportunity for ensuring this unity and consistency? These questions had not been adequately addressed. It was important that any new round of negotiations did not continue to fragment the General Agreement.

SUBSIDIES

92. The representative of Australia said that the paper submitted by his delegation (PREP.COM(86)W/29) had two distinct but inter-related elements. The first element was concerned with the obligation of Article XVI:1 which was, at the moment, that a subsidizer was simply obliged to discuss the possibility of limiting subsidization. In the new round, this obligation should be strengthened with a view to requiring a party to remove the cause of serious prejudice which would be created by either domestic or export subsidies. The second element was a proposal to eliminate the asymmetry between the treatment of export subsidies on primary products and export subsidies on non-primary products. It should be borne in mind that subsidies were a major factor in distorting the allocation of resources and in distorting trading opportunities not only for developing countries but also, with some exceptions, for nearly all developed countries. Furthermore, the abuse and use of subsidies were a principal cause of trade friction. There were many disputes under both the General Agreement and the Subsidies Code, many of which had not been resolved. In fact, the Subsidies Committee had been unable to resolve any of the disputes brought before it, whether they referred to primary or non-primary products. The Code rules had been interpreted in a way which had had the effect of protecting distorting trade practices both on primary and non-primary products. Consequently, the Code had been ineffectual in clarifying or strengthening the rules of the GATT in respect of subsidisation. Despite further attempts outside the formal discussions on the Panel reports to resolve these disputes through informal processes by various Chairmen of the Subsidies Committee, the Subsidies Code had again been unsuccessful. Another reason for his delegation's comprehensive approach to subsidies was to look to the interests not only of members of the Subsidies Code and not only countries who might have an interest in agriculture, but to the interests of all contracting parties. Subsidies did not only affect competition. They also affected industrial development, and the existence of substantial export subsidies and significant domestic subsidies had a depressing effect on programmes for economic development. To show the dimensions of this problem, a relevant paper prepared for the World Development Report of the World Bank had said that the total beneficial economic effect for developing countries of full liberalisation of the world's sugar market would be in the region of \$5.9 billion. The equivalent effect for developed countries would only be \$0.9 billion. Sugar was only one example. The Australian proposal was based on the existing undertaking in Article XVI:5 of the General Agreement, which provided for contracting parties to review the provisions of Article XVI with a view to examining its effectiveness in the light of actual experience in promoting the objectives of the GATT and avoiding subsidization seriously prejudicial to the trade and interests of all contracting parties. The intention of his delegation was to seek a solution which would ensure not only equitable rules across all sectors but rules which would correct the differential between the rights and obligations assumed by different contracting parties.

93. The representative of the European Communities stressed that the Committee should concentrate on drafting concrete texts and work out a common position. He was concerned that, despite his previous comments, subsidies were again a separate item on the agenda and therefore he felt compelled to reiterate the EEC position that while each participant had the right to raise any question

which seemed vital for his own interests, the EEC also had the right to oppose the inclusion of a specific question in the negotiations, or to refuse to participate in negotiations on such a question. This remained the EEC position. He also regretted that the secretariat document PREP.COM(86)W/17 reflected the views expressed by some delegations, in particular by Australia, much more fully than those of the EEC. Delegations seemed to have a wrong approach to subsidies; the problem was being perceived as financial in nature (i.e. subsidies were expensive and governments did not have adequate budgetary resources to pay them) and in terms of the need to limit the part played by the State in the economy. All this was true but as long as the real roots of the problem had not been understood, governments would have to have recourse to subsidies in order to protect national interests. Courage was therefore needed to attack the fundamental problems concerning, for example, the surpluses and the stockpiling which were increasing everywhere because there was no international concertation. To attack not the root causes but only the consequences would be the worst possible manner of dealing with the problem and would postpone a possible solution.

94. The representative of Colombia agreed that one had to deal with the root causes of the problem of surpluses and of other problems existing in the field of agriculture. However, he would like to ask the countries which were applying more and more subsidies to agriculture what had come first: the egg or the chicken? Were the existing agricultural surpluses not due to the very existence of subsidies? He invited the representative of the EEC to explain how to attack this fundamental problem of agricultural subsidies and of surpluses resulting therefrom.

95. The representative of Jamaica said that looking at paragraph 160 of PREP.COM(86)SR/2, it appeared to him that document PREP.COM(86)W/29 issued by the delegation of Australia could very well have been co-sponsored by the EEC because both delegations had indicated that they had been prepared to consider domestic subsidies as well as export subsidies. His delegation had earlier said that there might be some need to examine the question of subsidies not only in the context of Article XVI, but also in the context of Article VI and of Article XXIII. However, the objective indicated by Australia was limited to the provisions of Article XVI. He therefore wished to know whether the intention was to limit the review of subsidy practices to Article XVI and not to broaden its scope to cover other relevant articles as well.

96. The representative of the United States said that uncontrolled subsidies in international trade posed one of the greatest threats to the continuation of the GATT system. The developed countries were the real players in today's subsidies game and, for them, it was a costly game. But it was even costlier for those who did not wish to play - principally in the developing world. It was therefore imperative to bring the use of all types of subsidies back under multilateral control and this had to be a principal objective of the new round. There had to be discipline for subsidies in all product sectors, especially in those primary product sectors where subsidies had, for far too long, been undisciplined. As the Subsidies Code had failed miserably to improve on the disciplines already found in Article XVI, the negotiators should not start from the Code's present provisions but go back to basics and start with Article XVI. As for the other side of the equation - countervailing duties - the Subsidies Code was a package, so it would be necessary to go back to basics on this front as well.

97. The representative of Uruguay repeated that for his country, subsidies in third markets for a large number of exported products were creating the most serious prejudice. His delegation had available figures and concrete information to corroborate this fact. He therefore considered that the question of subsidies had to be dealt with adequately in the new round. Otherwise, his delegation would have to completely reconsider its position.

98. The representative of Chile reiterated his position, expressed on previous occasions, on the importance of subsidies in the new round. He also noted that there were certain contradictions in the positions taken by one delegation in different committees on this subject. At the last meeting of the Subsidies Committee, this delegation which was opposed to dealing with subsidies in the new round had agreed that this matter should be subject to multilateral analysis. There should be a minimum of consistency, not so much among the members of the Preparatory Committee, but at least within each delegation.

99. The representative of the European Communities said that the Community's hesitation derived from the fact that the concept of subsidies had, for some time now, been misinterpreted and misunderstood in GATT. If the Committee could agree to give the subject a more balanced and realistic treatment there would no longer be any objection on his delegation's part to dealing with it. For example, at the previous meeting the Chairman had said that the secretariat would attempt an analysis of the positions of contracting parties in order to facilitate a discussion on how agreement on this question might be reached. In PREP.COM(86)W/17, paragraph 4, however, the secretariat had devoted ten lines to the Australian position and only two to that of the EEC. The EEC was in favour of the elimination of subsidies, to the largest extent possible, because that would be a very good service for the taxpayers of every country. This, however, had to be done on a concerted basis.

100. The representative of Sweden, speaking on behalf of the Nordic countries, said that they would see a twofold objective in interpreting and elaborating governing subsidies: the first would be to limit the trade distorting effects of subsidies and the second that when used, domestic subsidies would promote a process of positive adjustment. The Preparatory Committee's main task here would be to indicate how the subsidies issue would be addressed in the negotiations. Appropriate modalities should be worked out for a number of negotiating areas to which the subsidies issue was relevant. Negotiations concerning subsidies on agricultural products could only take place as part of the negotiations on the larger issue of trade in agriculture, which would in turn form part of the overall package. In the view of the Nordic countries, GATT Article XVI should be clarified and improved in order to limit the distorting effects of subsidies on trade in manufactured products.

101. The representative of New Zealand, agreed with the United States' suggestion that the time had come to go back to basics, for two reasons. First, an opportunity to do so, which did not arise very often, now existed in preparing for the new round. Secondly, collective real-world experience suggested that there was something fundamentally wrong with the assumptions on which governments had been proceeding. That feeling was shared by all but very few delegations in the Committee. He had no illusions as to the difficulties involved in proceeding along the negotiating approach laid down

explicitly in the paper which the Australian delegation had submitted and, implicitly, in the comments made by the United States. The existing agricultural surpluses were among the most difficult issues that had to be dealt with. The EEC delegation should be assured that New Zealand would approach this matter with realism and pragmatism. However, the issue before the multilateral trading system was not how to get rid of surpluses but a much more fundamental and long-term one. Unless the opportunity to go back to basics was used, the surpluses and other difficulties created by subsidy practices would simply recur.

102. The representative of the European Communities said that contrary to the apparent situation, he had noted the possibility of a basis for agreement. He had never said that his delegation did not want to discuss subsidies. What he had said was that the EEC was not prepared to single out the problem of agricultural subsidies, because this was just one element in a whole. The EEC was ready to deal with subsidies in the appropriate framework, which should be the agricultural one, because one could not settle agricultural problems without doing something about agricultural subsidies. This should be clear and no one should expect the EEC to negotiate agricultural subsidies against subsidies in services or high-technology goods. The EEC position on this was very solid. They were not against discussing subsidies but wanted to place them in their proper context.

STRUCTURAL ADJUSTMENT AND TRADE POLICY

103. In opening the discussion on structural adjustment of trade policy, the Chairman drew attention to document PREP.COM(86)W/6 which had been circulated previously.

104. The representative of Japan said his delegation concurred with the views expressed in the first round of the Committee's discussions that the Ministerial Declaration should include structural adjustment as an objective to be pursued in the different areas of the new round and should not be treated as a separate item for negotiation. His delegation suggested the following wording for the section of the Declaration dealing with the overall objectives: "the negotiations shall aim at the expansion and ever-greater liberalisation of world trade, thereby promoting structural adjustment in each country, achieving greater world economic prosperity and improving the standard of living and welfare of the people of the world."

105. The representative of the European Communities agreed with the representative of Japan that structural adjustment was one objective among several general objectives which should appear at the beginning of the document to be submitted to the Ministers. He said it was time to begin drafting that document and that the Committee should examine the text submitted by the representative of Japan and any other texts available rather than re-discuss the structural adjustment issue.

106. The representative of Jamaica said that structural adjustment could be considered both as an item for negotiation and as an objective, although not in the traditional sense of either. For example, while he believed that structural adjustment was a process or a result rather than an item for negotiation as such, his delegation could support the suggestion in paragraph three of PREP.COM(86)W/6 concerning the possibility of establishing guidelines for government policies affecting structural adjustment. His delegation hoped this might be a means of encouraging structural adjustment policies conducive to maintaining an open trading system. The fact that the issue of structural adjustment cut across a number of issues should not preclude its being considered in a broader context. For example, structural adjustment might be seen as a means of anticipating or avoiding protectionist trade or macro-economic policies which themselves would lead to further distortions to be corrected (e.g. subsidies or surpluses). If, on the other hand, structural adjustment were to be considered as an objective, it would have to be more focussed than other general objectives in order to avoid reducing it to a meaningless level of generality. In answer to whether it would be possible or appropriate to negotiate undertakings on government policies affecting structural adjustment (question six of PREP.COM(86)W/6), he drew a distinction between macro-economic policies, which were beyond the purview of GATT, and micro-economic policies at the sectoral or industry level which could be addressed. The impact of structural adjustment in one sector on other sectors (e.g. steel and automobiles) as well as the relationship between developments in these sectors and the pursuit of grey-area measures outside the disciplines of GATT, provided a legitimate basis on which to formulate some general guidelines on structural adjustment to ensure that policies being pursued were consistent with the restoration and maintenance of the open trading system.

107. The representative of Switzerland said that adjustment was not one single item for negotiation but implicitly was covered by a number of subjects including, inter alia, safeguards, subsidies, and quantitative restrictions. Structural adjustment was one of the objectives of the new round of negotiations, to the extent that continuous structural adjustment should result from a well-functioning multilateral trading system in which all participants applied the rules. However, governments could not negotiate the effects of the trading system, such as, for example, structural adjustment, full employment or the standard of living but could only negotiate the system of rules which might result in adjustment. Governments could however commit themselves not to impede the carrying out of adjustment.

108. In response to the intervention by the representative of Switzerland, the representative of Jamaica recalled that the OECD had adopted positive adjustment measures, and that in the GATT itself, governments had negotiated not only in areas in which they had direct responsibilities, but also in areas in which they tried to determine the framework within which private interests could pursue their legitimate objectives and responsibilities. What was presently needed was a definition of structural adjustment and trade policy which would enable it to be handled in the context of the GATT.

TRADE IN COUNTERFEIT GOODS AND OTHER ASPECTS OF INTELLECTUAL PROPERTY

109. The representative of the United States said that the issues of trade in counterfeit goods and protection of other aspects of intellectual property clearly belonged in the negotiations and should be included in the Ministerial Declaration. Since the Tokyo Round, his delegation had been urging the GATT to take action on the increasingly serious problem of trade in counterfeited trademarked goods. The report of the group of experts on trade in counterfeit goods, which had clearly established that commercial counterfeiting was a major trade problem, had provided a sound foundation for negotiations in the new round. Counterfeiting constituted only one part of a much broader concern about intellectual property infringement, particularly for the United States, where patent and copyright interests were key to international competitiveness. Piracy, misappropriation and infringement of others' intellectual property also were causing severe trade distortions. The GATT could not afford to ignore these trade issues. While GATT negotiations would, of course, take into account the relevant existing international agreements, GATT action in this area should supplement and, where needed, go beyond the existing international conventions and the current efforts of other international organisations. Negotiations should aim to reduce distortions and impediments to international trade arising from the misuse and infringement of intellectual property rights, and also aim to provide a stronger framework for the expansion of world trade in new products and products made by new processes. The GATT had the appropriate legal and institutional framework to deal with these problems, including the machinery for ensuring transparency, notification, consultation, and dispute settlement. Such machinery was lacking in other international agreements dealing with these issues.

110. The representative of Brazil said that the views of his delegation on this matter had been expressed on a number of occasions, and nothing had happened to warrant a change in his delegation's position. The note prepared by the secretariat on this matter (PREP.COM(86)W/20) was, in the view of his delegation, not balanced in its approach. His delegation's response to the question posed in the document was that it was not appropriate to deal with the problems of trade in counterfeit goods and other aspects of intellectual property in the GATT.

111. The representative of the European Communities said that the Communities had an interest in reaching, as soon as possible, an effective agreement on broadly acceptable rules in this area, beginning with the international trade aspects of commercial counterfeiting. Such negotiations would be without prejudice to other complementary initiatives which might be taken in the WIPO or elsewhere to deal with other aspects of the same problem. On the wider matter of intellectual property, it was clear that international trade increasingly depended on appropriate protection of intellectual property rights, including patents, trade marks, marks of origin and copyrights and related rights. Such protection should guarantee an adequate return on investment in the development of goods and services or the promotion of commercial goodwill, while at the same time avoiding unreasonable barriers to trade. A new round could contribute to the definition of a better balance between these often conflicting objectives. His delegation thus proposed, as a first step, a review of those GATT provisions which already dealt with intellectual property, including in particular Article XX.

112. The representative of Cuba said that the document prepared by the secretariat (PREP.COM(86)W/20) did not contain a balanced presentation of views concerning the desirability of multilateral action in the GATT on this subject. Her delegation remained opposed to the introduction of this subject into the new round. There were many long-standing requests by developing countries that the GATT should act to resolve problems of importance to them: for example, since 1963, developing countries had been trying to find solutions on tropical products in the GATT, without success. Developing countries considered these and some other problems were much more serious and of concern to a much larger number of countries than trade in counterfeit goods.

113. The representative of Argentina said that his delegation's position on this issue had been expressed at earlier meetings of this Committee and also in greater detail at meetings of the Expert Group. The only consensus which had emerged from the Expert Group was that the problem of trade in counterfeit goods concerned the violation of intellectual property rights and thus was a subject which automatically came within the purview of another international organisation, whose main function was the protection of intellectual property rights. There was no consensus in the Group as to whether Article XX of the General Agreement could be seen as containing provisions concerning counterfeit goods. This Article mentioned this issue only in passing, as it did other issues such as public morality, phyto-sanitary measures, etc. In view of the divergence of views concerning the competence of GATT in this respect, which had also been evident in the Group of Experts, the Preparatory Committee was not in a position to decide that this subject could be included in a possible future round of negotiations.

114. The representative of India agreed with the Brazilian delegation that the secretariat paper on this topic had not reflected adequately the nature and content of the discussion in this Committee. He also agreed with the representative of Argentina that the only point of consensus in the Group of Experts had been that trade in counterfeit goods involved a violation of intellectual property rights; the Group had not established the competence of the GATT to deal with this subject. It was important to distinguish between the desirability and appropriateness of combatting trade in counterfeit goods, which he believed all delegations could support, and that of including this subject in the proposed new round and under the auspices of the GATT. His delegation had said previously that the GATT had no expertise in this subject and thus was not competent to determine what was an intellectual property matter. Further, he was concerned that due account was not being taken of the competence of existing relevant international organisations. The fundamental question to be answered was whether the Articles of the General Agreement applied to this area, and not whether the GATT mechanisms of consultation and dispute settlement could usefully help solve problems arising in it. His delegation remained to be convinced as to how this matter might be addressed in the GATT, and in the context of a new round.

115. The representative of Japan said that there was no doubt that GATT should respond to the new issues in the changing global economic and trade environment. The increasing incidence of trade in counterfeit goods had trade-distorting effects and had led to introduction of unilateral measures to try and combat this trend. In view of the need to bring trade under more effective international disciplines, it would be important that disciplines

also be envisaged to deal with new aspects of trade resulting from technical and other innovations. His delegation believed that while there were other international organisations which were competent to deal with some of these questions, the GATT clearly had competence on the trade aspects of these matters.

116. The Chairman, noting that there were no speakers on the item of exports of domestically prohibited goods, opened discussion on textiles and clothing.

TEXTILES AND CLOTHING

117. The representative of Hong Kong said that when considering how to cover textiles and clothing in a draft Ministerial Declaration, the first point to be taken into account was that the immediate future of the textiles regime was for decision in the Textile Committee between now and the end of July. That exercise should produce a multilateral commitment to the basic objectives of liberalization and regularization of the textiles sector; liberalization in the sense of progressively increasing market access and regularization in the sense of progress towards the restoration of a unified trading system. Precisely how such a commitment would be formulated multilaterally would emerge from the negotiations in the Textiles Committee, but the question of how it would be translated into reality would remain. It would not be sufficient for a ministerial declaration in September merely to take account of the terms of a multilateral commitment already concluded in the Textiles Committee in July. The declaration should emphasise the need to convert that commitment into reality - to ensure that its terms were faithfully reflected in the subsequent bilateral agreements and again that these bilaterals would be faithfully implemented. In this way, the declaration would be setting the scene for convergence between a strengthening multilateral trading system and a liberalizing textiles regime.

118. The representative of Japan said that textiles and clothing should be included in the agenda of the new round in terms of reduction and elimination of trade barriers. Japan was ready to discuss in the new round the liberalization of trade in textiles and clothing as well as the establishment of an environment conducive to a return to GATT principles from a medium and long term perspective. It might be very difficult at this stage to work out specific modalities for negotiations on this sector in view of the ongoing deliberations on the post-MFA III régime. He suggested that the Preparatory Committee should recommend that the new round should formulate the framework for the medium and long-term liberalization of textiles trade.

119. The representative of Korea said that trade in textiles and clothing should be treated as one of the key issues in launching the new round of negotiations. If any party tried to establish a more restrictive regime in textiles and clothing trade while preaching further liberalization and expansion of trade in other sectors, that party's real intention and credibility would be easily challenged. There should be consistency between the three tracks of discussion being carried out in the Preparatory Committee, the Textile Committee and the Working Party on Textiles and Clothing. The régime governing trade in textiles and clothing after the expiry of the present MFA should be a more liberalized one. In that context, elimination of discrimination between restrained and non-restrained sources, prevention of abuse of exceptional cases and no expansion of product coverage were key elements. It was essential that a future long-range treatment of the textiles trade be taken up in the forthcoming new round of negotiations.

120. The representative of India said that although the developing countries had, in various fora, raised a number of issues relating to the liberalization of trade in textiles and clothing, those concerns had yet been directly addressed by the major trading partners. It was imperative to maintain a consistency of approach to textiles and clothing and to the wider trade liberalization exercise in the context of the proposed new round. A group of developing countries had pointed out in a specific proposal the importance of including textiles and clothing trade in the commitments on standstill and rollback. The relevance of an early settlement of the safeguards issue to trade in textiles and clothing had also been emphasized. He was confident that these views would find adequate expression in the instrument that the Textiles Committee was going to draft. The question of tariff escalation in textiles and clothing was quite distinct from the parameters of discussions in the Textiles Committee and should be addressed in the context of the proposed new round. The developing countries were looking at the two processes in the Preparatory Committee and in the Textiles Committee with great interest to see what form of commitment would be forthcoming in either forum to trade liberalization and the eventual elimination of the derogation that currently existed in trade in textiles and clothing.

121. The representative of Argentina said that the link between the liberalization exercise undertaken within the framework of GATT and the unsatisfactory situation concerning trade in textiles was an important one. Coming events in the next few months in the field of textiles would undoubtedly have very important consequences for the credibility of the GATT system and of the liberalization exercise which was being proposed. Treatment of textiles, like that of agriculture, had been serving badly the interests of the developing countries in GATT and these two areas of trade should now be fully integrated into the GATT system. Concrete subjects such as textiles, agriculture, standstill, rollback and safeguards would constitute the necessary framework for the negotiations.

122. The representative of the European Communities said that the statements by the representatives of Hong Kong and Japan seemed reasonable and realistic. The Community agreed with the aim of liberalizing trade in textiles by applying the rules of the General Agreement. But in order to do so, all had to undertake actions in a constructive manner without trying to set excessively ambitious goals. Was it realistic or feasible to propose the phasing out of the MFA within three years? If that was what developing countries were demanding, it would be a prior condition which would prevent the launching of the new round. The Community was ready to negotiate in the framework of multilateral trade negotiations and to deal with all elements which would permit the attainment of the final objective of returning to GATT rules. But the Community was not in favour of proceeding in a hasty manner, or of unilateral reductions or elimination of trade measures because this would only be sowing the seeds of disorder for tomorrow. To insist that the rollback commitment should require all measures in textiles and clothing to be eliminated in a very short period of time, was tantamount to rejecting the need for a new round.

123. The representative of Brazil said that discussions on textiles and clothing provided an important opportunity for contracting parties to demonstrate their willingness to create appropriate conditions for strengthening the multilateral trading system through the proposed new round. It would be impossible to envisage a new round without a clear indication on the part of interested contracting parties that they were prepared to engage in meaningful discussions on liberalization of world trade including textiles and clothing.

124. The representative of India said that his delegation had hoped that in this phase of the work of the Preparatory Committee some specific formulations in regard to important topics in the context of the Ministerial Declaration might be forthcoming. Unfortunately, the discussions on textiles and clothing had not revealed any such propensity on the part of major trading partners. Some contracting parties had said that they were prepared to deal with all elements relating to the final objective of the application of GATT rules. This was a welcome statement of good intentions but in the context of concrete negotiations there had to be something more. It had been said that if one was to apply the concept of rollback to trade in textiles within a short and specific timetable of three years, then there would be no need for a new round. However, his delegation was of the view that such a positive and concrete gesture in the field of textiles and clothing would make it possible for all to participate in a new round in a positive frame of mind. But it was yet to be seen whether such a positive gesture would be forthcoming. He expressed a sense of disappointment at the absence of specific formulations coming from the developed importing countries on this problem at this stage of the deliberations of the Preparatory Committee and warned that this was significant and had serious implications for the new round itself.

125. The representative of the European Communities said that one had to be very prudent in stating prior conditions. He doubted if the developing countries wanted to bear the responsibility for the non-launching of a new round because of a prior condition which could not be accepted by their trading partners. The fact that there were two parallel negotiations, on the renewal of the MFA and the preparations for the new round, was a great temptation for any negotiator to link the two. But there should be no link because they were two separate matters. The negotiations for the renewal of the MFA were short-term, and to bring textiles and clothing trade back to the normal framework of the General Agreement would require very much longer than three years. He understood that this prior condition covered standstill and rollback commitments on textiles and clothing. He would subscribe to a standstill concerning textiles and clothing insofar as this was in accordance with the provisions of the MFA: for the time being, one could not assume standstill commitments according to GATT provisions which were not applicable to trade in textiles and clothing. As for a commitment on rollback, this would be a subject for negotiations which should be handled carefully.

126. The representative of the United States recognized that textiles and clothing was a preoccupation for many countries. The very delicate situation in the United States with regard to textiles and clothing was known to all. What the Committee needed to do was to make a realistic approach in drafting the agenda for the negotiations. In textiles, this meant that it had to be done on the assumption that negotiations on a new Multifibre Arrangement were successful. It also meant that any standstill and rollback agreement would apply only to actions taken on textiles that were inconsistent with a new MFA.

127. The representative of Norway said that the Nordic countries supported efforts to secure progressive expansion of world trade in textiles and clothing, the final objective of which should be to bring about the full application of GATT provision to this sector of trade. In the short term, such a process could best be pursued by a prolongation of the Multi-Fibre Arrangement. The Nordic countries participated in the current negotiations with a view to implementing a more liberal trading practice under the future MFA régime. The question of further progress towards the full application of GATT to this sector should represent an important element of the coming trade negotiations. Against this background, the Nordic countries believed that the new round would be conducive to the progressive liberalization of world trade in textiles and clothing.

128. Referring to the statement by the representative of the United States that the standstill commitment be made on the basis of the new MFA, the representative of India said that he was not sure if it was possible to have such a commitment in the Preparatory Committee on the basis of an instrument whose nature was still unknown.

129. The representative of Pakistan said that he was intrigued by the phrase "the long-term objective of the developed countries will remain to be the eventual return to GATT rules in textiles". In the area of money and finance, the term "long-term objective" had reference to a particular time-span. In textiles and clothing, it was known that the MFA was intended to provide a temporary breathing space. That temporary breathing space had already lasted more than twenty years. He asked what should be inferred from this when continuous references were made to the "ultimate goal" of an eventual return to GATT.

130. In response, the representative of the European Communities said that ever since 1960, trade in textiles and clothing had been conducted under a special régime which was necessitated and justified by the fact that in this sector developing countries were in general sufficiently or even too competitive because the rules of the General Agreement allowed them to benefit from access to markets and at the same time not to open up their own markets. If trade in this sector were to return to this situation of inherent imbalance, aggravated by the introduction in 1966 of Part IV of GATT and later of the Enabling Clause, all the old problems and disorders would recur. There must be agreement on what principles and rules this sector of trade was returning to, and these principles and rules should ensure more normal relations between trading partners.

131. The representative of Jamaica said that the principle of non-discrimination and differential and more favourable treatment for developing countries was central to the open multilateral trading system. The Preparatory Committee was faced with a real dilemma. On the one hand, there was managed production and trade via subsidies in agriculture; and on the other hand, there was managed trade in textiles and clothing via protectionist measures at the border. There appeared to be some contradiction between the work of the Preparatory Committee, which was making efforts to preserve and promote the open multilateral trading system, and the work of the Textiles Committee which was clearly protectionist in nature. GATT was seen as a set of principles and a set of exceptions. But the exceptions should not be so great as to make the principles meaningless. He expressed the hope that the points raised by a

number of developing countries could be reconciled in the Committee's recommendations to Ministers. Where there was difficulty in finding consistency it should point to the manner in which consistency could be ensured in the shortest possible time. If discussions continued to try to justify something which could never be justified, as in agriculture, then the Committee would be drifting further away from what it was attempting to do.

PROBLEMS OF TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS

132. In introducing this issue, the Chairman drew attention to a note on the matter prepared by the secretariat and circulated in PREP.COM(86)W/21.

133. The representative of Canada noted with pleasure that a broad measure of support for attaching a high priority to problems of trade in natural resource products in the next round of negotiations had emerged from the debate. This support should be clearly reflected in the profile which this subject matter should carry in the development of the Ministerial Declaration. In the Canadian view, the Ministerial Declaration should establish as a major negotiating objective the further substantial liberalization of trade in fish and fisheries products, in metal and mineral products, in wood products, and in pulp and paper products as well as in a range of other resource products and related equipment and services. Negotiations should aim at eliminating, or at least significantly reducing, tariffs and other distortions of international trade in these sectors and to develop a more predictable trading and investment environment for resource-based and related industries. Although his authorities would be delighted if an early agreement could be reached on the modalities for negotiations in this area and they were prepared to contribute specific suggestions for the wording of this subject matter in the Ministerial Declaration, they still had an open mind on this subject and were not pursuing a specific approach. The important thing for Canada was to achieve the results of liberalization and to ensure that the rules of the game did not stand in the way of such achievement.

134. The representative of Peru said that the interest of her country in this matter had been made clear in the Working Party on trade in certain natural resource products. Her authorities were satisfied with the note prepared by the secretariat, (PREP.COM(86)W/21), because it reflected in an appropriate manner the problems that contracting parties had to face in the liberalization of trade in products based on natural resources. She agreed with Canada that the Ministerial Declaration should reflect very clearly the importance of this subject and the need for greater liberalization in these product areas. Peru believed that the problems which had been identified with respect to trade in the various product groups should not be addressed generally within the negotiations, because distributing these problems among the various negotiating groups would result in toning down and minimizing them.

135. In commenting on PREP.COM(86)W/21, the representative of Sweden, on behalf of the Nordic countries, stressed that the Nordic countries favoured trade liberalization in natural resource products in the new round. Liberalization in this area should be pursued as an integral part of the overall negotiations. The Nordic countries believed that sector negotiations

would lead to an unproductive fragmentation of international trade. The problems identified with regard to trade in the different product groups could be dealt with in the general framework of the negotiations, and that there was no need for specific modalities. They saw no need for special monitoring or review procedures.

136. The representative of Zaire stressed the need to include this subject matter in the new round. As to the negotiating modalities, Zaire remained flexible. However, since some delegations insisted on the inclusion of problems relating to access to fish resources in the negotiations on fish and fisheries products, Zaire was compelled to say that specific modalities should be established for the different sectors. Regarding the extension of the coverage of GSP schemes, he said that the results of the new round should not erode the trade benefits accruing to some developing countries in the framework of the Lomé Convention. The Ministerial Declaration should contain clear indications on how to negotiate natural resource products. Zaire favoured procedures which would secure the respect of negotiated undertakings.

137. The representative of Jamaica sought clarification on some of the points raised in the secretariat note PREP.COM(86)W/21. Paragraph 6 of PREP.COM(86)W/21 asked whether trade in natural resource products could be dealt with in the general framework of the negotiations or whether there was a need for specific modalities in these sectors. A look at the product lines indicated that it was a heterogeneous group. On the one hand there were agricultural or fisheries products, and on the other there were industrial products. If the contracting parties were going to take agriculture as a sector, it would be possible to deal with the products which were agriculture- or fishery-related under the agricultural sector. More generally, though the General Agreement provided rules both on the import side and on the export side, the rules were less strictly drawn on the export side than on the import side. If contracting parties were looking at sector negotiations, was it intended that they would be looking only at those issues that had been raised in paragraph 3 of PREP.COM(86)W/21, which related purely to the import side. The topic was "certain natural resource products". Should contracting parties in the New Round limit themselves to a limited, range of natural resource products rather than a more comprehensive range of products? Looking at the list of products considered, he noted that, as in past rounds of negotiations, the energy sector had been excluded, although hydrocarbons were perhaps the most important natural resource in the industrial process and, according to information drawn from the GATT secretariat, represented the largest single item in international trade. He recognized that his last point was perhaps breaking new ground in this area, because at no time was it intended that the energy sector be included in this list of natural resource products. Moreover, it was well known that there were certain components, sometimes loosely described as high technology, which were resource products in the production process. Therefore, he questioned why, in a period of substantial changes in economies in which the technological component was, in a number of areas, even more important than the natural resource components, contracting parties would be excluding these resources. If contracting parties were considering a sector approach, it would be appropriate to start from the more comprehensive and then to go down to the specific. However, he had noted with interest the comment of the Nordic countries that they would see the negotiations on specific product groups or product lines being undertaken in the normal course of negotiations.

138. The representative of Chile said that the need for trade liberalization in certain natural resource products had been recognized, notably with respect to their semi-processed and processed forms. Trade in these products constituted an important part of the foreign trade of developing countries, and it was absolutely necessary to improve the access and security in export markets. In 1982, the Ministers had asked for work to be undertaken in this field and the Working Party set up to that effect had been able to identify the main existing problems. The list was a long one. For this reason trade liberalization in certain natural resource products should be the subject of a specific recommendation, covering all questions relating to access to markets and competition, including non-tariff measures.

139. The representative of the European Communities stressed that from his delegation's viewpoint, it was important to include problems concerning both imports and exports of resource-based products. Export restrictions of all types were just as important as import measures in all sectors, not merely in natural resources. Regarding negotiating modalities, paragraphs 6(i) and (ii) of PREP.COM(86)W/21 contained useful ideas but modalities could very well be decided once the new round had been launched.

140. The representative of Australia said that the Canadian delegation had rightly drawn attention to some very important aspects of trade in natural resource products. It was of the greatest importance that contracting parties find the right modalities for the consideration of this subject.

141. The representative of Argentina said that the Working Party which had carried out work which could now be considered as preparatory for a negotiation had clearly shown that the framework in which it had worked, grouping the products obtained from natural resources, had been an adequate way of focusing the problem. His country also flexible as concerned modalities, but was inclined towards joint treatment of these products in a negotiation. In any case, whatever the modality agreed upon for negotiation in this field, it was important to state clearly that this should be limited to those aspects which were within the competence of the General Agreement.

142. The representative of the United States said that his country would support negotiations on natural resource products. Much of the discussion on the subject had dealt with modalities, with at least a few delegations favouring some type of sector approach. He recalled that on another subject, namely, high technology, his delegation had indicated that it believed that the best way to pursue liberalization in the area of high technology goods was to negotiate in the various aspects of the negotiation. If contracting parties were embarking on a discussion of sector negotiations, this might have to be reconsidered. The best way to approach negotiations on high technology as well as on natural resources, or even tropical products, would be with respect to the non-tariff and tariff barriers that faced those products rather than in separate sector negotiations.

143. The representative of India reiterated his country's position that the question of access to resources was not within the purview of the General Agreement, since there was no obligation on the contracting parties to export.

144. The representative of Switzerland said that among the problems identified in PREP.COM(86)W/21, he had not been able to see any which could specifically be linked to one type of product rather than to another. There seemed no reason why some types of products should be specially privileged through a sector approach, and his country would find such an approach difficult to accept. It was of course understood that natural resource products should be fully covered in the general approach to the negotiations.

EXCHANGE RATE FLUCTUATIONS AND THEIR EFFECT ON TRADE

145. The representative of the European Communities recalled that his authorities had been concerned about this matter for a long time. The EEC had argued that concerted international action was necessary in order to ensure the smooth functioning of the monetary and financial system, as well as an adequate flow of resources to developing countries. The situation had improved considerably in recent months, but additional efforts were required in order to consolidate and preserve these gains and enable the negotiations to be launched and pursued. This matter should be the object of an agreed understanding in relation to the overall conduct and framework of the negotiations.

SERVICES

146. The representative of the United States recalled that the United States had made clear in both the Preparatory Committee and the Senior Officials' Group the importance it attached to the inclusion of services as a subject for negotiation in the new round. The task today was to begin drafting language for a text on services to be included in the draft declaration. As with all other issues, Ministers would have the final say in September. His delegation firmly believed, and knew that other contracting parties shared the same view, that negotiations in the area of trade in services should establish a framework of legally binding principles that would provide the maximum opportunity for international transactions in these rapidly growing sectors of the world economy. Any such understanding should take into account the requirements of sound regulatory principles whose purpose was to ensure a healthy services sector which would be responsive to the needs of the world economy. Separate or sectoral understandings within this broader framework might also be explored. The key issue was the desirability of setting up a framework for the conduct of trade relations in services, as already existed for goods. Indeed, some of the principles embodied in the GATT already applied to services to some extent and were appropriate as a starting point and frame of reference for discussions and negotiations. It would be up to the negotiators of those contracting parties who were interested in services, and in a GATT that could be responsive to the changes in the economic environment, to try to draw up such a framework.

147. The representative of Brazil recalled that the decision taken at the 41st Session of the CONTRACTING PARTIES recommended the continuation of an exchange of information on services in a special group. This group was continuing its work. The decision further stated that at their next Session the CONTRACTING PARTIES would consider any recommendations made by the group. Before the CONTRACTING PARTIES had discharged that task, and bearing in mind the wide

divergence of views already expressed on this subject, there was no basis for the Preparatory Committee to address as a matter for discussion and deliberation a theme which did not fall under the jurisdiction of the General Agreement on Tariffs and Trade. He said that his authorities were prepared to hear the views of other delegations on this subject, but were not prepared to deliberate on it.

148. The representative of Chile said that his delegation considered that services should not be covered by a code of partial application which would be valid for some countries only. It would be unacceptable for industrialised countries to grant concessions on goods in favour of developing countries on the condition that the latter countries signed the services code. Thus a negotiation on services could only be conceivable on a fully multilateral basis. If services were to be discussed, therefore, such discussions should be held in GATT, which ensured multilaterality. However, progress in this field should not condition progress, or retard the implementation of the results of negotiations, in other sectors. In all discussions, appropriate steps had to be taken in order to grant more favourable treatment to developing countries.

149. The representative of Argentina pointed out that contracting parties were already involved in a separate exchange of information on services, in a group created for the purpose and with a mandate to report to the Contracting Parties. This group should continue its work, so as to allow the Contracting Parties, in due time, to decide on the need for a multilateral action in this field. Argentina's own position on the matter was fully in accord with that stated by members of the Latin American Economic System.

150. The representative of Cuba repeated the position of his country, which was reflected in document PREP.COM(86)SR/3: before taking any action or decision in this Committee, or beginning drafting a recommendation, it would be necessary to consider the results of the group on services, which was set up by the decision of the CONTRACTING PARTIES, and which was now at work on the subject.

151. The representative of Japan said that services should clearly be included in the subject matter for negotiation in the Ministerial Declaration. The most important aspect of the negotiations on services would be the establishment of international rules, which would stipulate common principles to be applied to various sectors of services. As regards specific modalities for the negotiations on services, his delegation recognised that these could best be addressed during the course of the negotiations. The Ministerial Declaration should mention the broad objective of negotiations on services, to the effect that the new round should establish international rules for trade in services, which had become increasingly important in the changing international trade structure.

152. The representative of Sweden, speaking on behalf of the Nordic countries, stated that negotiations on trade in services should take place in the context of the new round. Important analytical work was presently being done in a special group in GATT, and these endeavours had full and active support from these delegations. Their hope was that this clarifying exercise would prove convincing as to the value of multilateral action under GATT auspices in this important and fast growing field.

153. The representative of Australia pointed out the growing importance of services, and what was equally important, the growing public awareness of services trade. Australia had also said in the past that services were an appropriate subject to be dealt with in the new round. It would be desirable to have wide participation in any negotiation in services, in order to ensure a balanced approach and to ensure also that the negotiations produced the widest possible benefits for the trading community as a whole. It was too early to discuss specific modalities, but it was clear that the Ministerial Declaration should establish the desirability of negotiations on services.

154. The representative of India recalled the genesis of the decisions taken by the CONTRACTING PARTIES in November 1985, one setting up this Committee and the other setting up the mechanism for carrying on the process of exchange of information on services. Both decisions had equal validity and equal status. The delicate balance of both decisions must be preserved so that the work continued without difficulties in both fora. His delegation had participated constructively in the exchange of information, and in addressing the issue in paragraph three of the 1982 Decision of the CONTRACTING PARTIES. In the view of his delegation, the Preparatory Committee could not take up the subject of services unless and until the decision was reached by the CONTRACTING PARTIES on the issues set out in paragraph three of 1982 Decision on the subject of services.

155. The representative of Switzerland reiterated that his delegation was also in favour of including services in the negotiations. The importance of the services sector was unanimously recognised, as well as the link between trade in services and trade in goods, and the fact that the absence of rules in this sector created problems. Governments had to come to grips with the new sector, and it might well be found that adequate solutions in the sector of services would in turn facilitate the search for solutions to traditional problems. It would be incomprehensible, and even irresponsible, to refuse to make an attempt to embark upon this subject. Though some might have fears about the prospect of negotiations on services, there would be far more reason to fear the consequences of failure to negotiate.

156. The representative of the European Communities said that time should not be wasted on discussion of services in the Preparatory Committee. It was clear that the inclusion of the subject of services could not be agreed at the level of this Committee, and that therefore this subject would have to be placed in square brackets in the draft Declaration. Those who were in favour of negotiations on services should clarify their views in order that a text could be submitted in due course on the specific objectives of negotiations on services. Since such a bracketed text would be under the exclusive responsibility of the authors, it would not need to be submitted to discussion with a view to reaching a consensus in the Committee. The Community was confident that services would in fact be dealt with in the new round.

157. The representative of Yugoslavia said that the information group on services was working actively and would submit a report to the next session of the CONTRACTING PARTIES. Until the CONTRACTING PARTIES had made the decision they were required to make under the 1982 Ministerial decision, the Preparatory Committee could not undertake to draft a text on services for inclusion in the Ministerial Declaration.

158. The representative of Israel said that Israel was one of the developing countries which believed that services should be included in Ministerial Declaration and in the forthcoming round of negotiations. Their reason for believing so was that since there clearly would have to be negotiations on services trade, the developing countries should be fully involved in them from the outset. The GATT, which had prescribed preferential and more favourable treatment for developing countries, was the appropriate forum for such an exercise. It was also clear that the existing group on services might have a rôle to play in the forthcoming negotiations.

ARTICLE XVII

159. The representative of the United States suggested that the review of Article XVII might be taken up in the declaration in the same context as several other Articles whose review had been suggested by delegations. It seemed clear that in negotiations on safeguards the adequacy of Article XIX would be under consideration and that in negotiations on subsidies Article XVI would be examined. Other Articles which had been mentioned in the Committee were XVII, XXIV, XXVIII, XII and XVIII. The US suggested that these might be grouped together in a single paragraph, to the effect that negotiations could be based on a review of the adequacy of existing GATT Articles: a list of the four or five specific Articles whose review was desired would follow. This might simplify and shorten the Ministerial Declaration.

160. The representative of the European Communities expressed interest in the United States' proposal. The EEC had never favoured singling out specific GATT Articles for review. However, the approach suggested by the United States merited consideration, although the Community could not at this stage agree on any specific list of Articles to be included in a general review.

161. The representative of India said that although the text of PREP.COM(86)W/22 suggested that there was considerable support for the view that Article XVII should be reviewed and possibly improved, his delegation was of the view that there was no need to clarify the Article any further. The obligations flowing from this Article and the related procedures were already sufficiently clear.

162. The representative of Czechoslovakia repeated his delegation's doubt as to the necessity of a review of Article XVII as such. They did not believe that this should be further treated in the Preparatory Committee.

163. The representative of Cuba agreed that obligations and procedures under Article XVII were quite clearly laid down and that there was no need for the Preparatory Committee to consider the matter further.

ARTICLE XXIV

164. The representative of Japan said that the adequacy of the provisions of Article XXIV should be reviewed in the new round in view of problems which had emerged in regard to regional arrangements and the urgent need to deal with them. This issue should not be dealt with in the normal work of GATT, but it was not essential to identify specific questions relating to the Article in the Ministerial Declaration. Article XXIV, together with other GATT Articles such as Article XXVIII, should be included in an overall review of the adequacy of existing GATT provisions.

165. The representative of Chile said that the provisions of Article XXIV should be clarified and improved and this matter should be dealt with in the new round. It would be insufficient merely to establish a working party to address the issue. The work could be organised in the context of a more general review of the adequacy of various GATT Articles and provisions. Finally, the Ministerial Declaration should refer to problems relating to rules of origin, since this was an area where rights and obligations were not always respected.

166. The representative of Switzerland said that the negotiations would inevitably address a series of questions relating to GATT provisions. He supported the idea of taking up these questions in the context of a general review and noted that such a review would not examine how to redraft entire Articles, but rather consider the operation of specific provisions in given situations. The decision on how to reflect or accommodate the results of any negotiations in this area could only be decided after those negotiations had taken place.

167. The representative of the European Communities agreed in principle that certain Articles should be reviewed during the course of the negotiations by a group entrusted with this task. In regard to the question of rules of origin, referred to in PREP.COM(86)W/23, he said there were so many complex matters for negotiation that it would be preferable to leave this subject for the normal programme of work in GATT. It was not a subject for negotiation and there were committees in GATT competent to deal with it.

RE-NEGOTIATION OF CONCESSIONS (ARTICLE XXVIII)

168. The delegate of Australia stated that there should be a review of Article XXVIII in the new round. He agreed that among the issues that might be examined would be those affecting suppliers' rights, the stability of bindings and the treatment of new products in respect of previously negotiated bindings. Furthermore,, if the negotiations were to resolve the imbalance resulting from the application of the present definition of suppliers' rights, there might be a need to look at the consequence of this renegotiation for initial negotiating rights. Other issues that might be examined were the retaliatory and compensatory provisions of Article XXVIII; the question whether suppliers' rights should be determined on the basis of m.f.n. trade or total GATT trade; whether there should be time-limits for negotiations under Article XXVIII; and finally, the relationship between Article XXVIII and Articles XIX and XXIV. If the negotiations were extended to cover these points and also the issues mentioned in relation to Article XXIV, Australia would consider it worth while including a review of Article XXVIII in the next round.

169. The delegate of Switzerland referred to previous statements made by his delegation on Article XXVIII. He considered a review of that Article advisable and necessary. He agreed that the negotiating rights should be formally amended, on the basis that existing rights should be complemented and not supplanted. It was not enough to introduce flexibility, as seemed to be suggested by PREP.COM(86)W/24, but rather a question of redefinition of rights which should be carried out in the negotiations. Switzerland was ready to examine or to review other problems which had been raised under Article XXVIII.

170. The delegate of Korea said that Article XXVIII should be re-examined in a formal way. A recommendation to contracting parties to use more flexibility in individual cases was not enough. Article XXVIII should be amended to provide a firm basis on which negotiating rights could be equitably recognized. Principal and substantial suppliers' rights should be broadened to reflect changes in world trade patterns and to secure an equitable distribution of negotiating rights among contracting parties. Concerning newly-traded products, the concept of trade potential should be introduced in recognizing substantial suppliers' rights. This was especially important for less-developed countries, as was recognized in Article XXXVII, para. 1(b).

171. The delegate of Peru said that she considered a review of Article XXVIII very appropriate, with a view to amending the criteria for the recognition of negotiating rights. It was important that developing countries with the potential to earn larger negotiating rights should be enabled to acquire them.

172. The representative of the European Communities said that Article XXVIII was an essential provision of the General Agreement which allowed contracting parties to assume a larger number of commitments, i.e. the binding of the quasi-totality of their customs duties. If the larger trading partners were to assume a maximum of commitments in GATT in the form of a large number of bindings, they must also benefit from a safety valve. For this reason the EEC attached great value to Article XXVIII, though it was quite ready to examine the procedures and criteria contained in it. In some forty years of GATT only a few contracting parties had frequently invoked Article XXVIII. In particular, the developed countries which had largely bound their tariffs had rarely resorted to that provision. There had also been very few litigations under Article XXVIII which suggested that it worked fairly well. The EEC understood the problems of small suppliers, especially developing countries, which remained for a long time small suppliers on international markets and which felt excluded from Article XXVIII, and thus the interest shown in discussing Article XXVIII. It was becoming more and more evident that a number of provisions of the General Agreement such as Article XVII, XXIV and XXVIII would have to be reviewed during the negotiations. The question whether there would have to be a formal modification or an interpretative note to Article XXVIII remained to be considered at a later stage.

NOTIFICATION AND SURVEILLANCE PROCEDURES

173. Turning to notification and surveillance procedures, the Chairman said that the secretariat had not yet circulated a paper on this subject, since it was considered preferable to go through all the items which had a link to the question of notification and surveillance before drafting a paper.

174. The representative of the European Communities said that the EEC envisaged several elements which would be covered by the concept of notification and surveillance. These included surveillance, firstly of the standstill and rollback commitments and secondly of the implementation of the results of the round. There was also the general surveillance of trade policies, as carried out by the Council in Special Session. As to notification, a distinction could be drawn between notifications relating to standstill and rollback and any new notification obligations arising from the negotiations. Harmonization and rationalization of notifications should also be considered.

175. The representative of Switzerland stressed that notification and surveillance should not be treated as an autonomous subject in its own right. Notification and surveillance were instruments which should make possible the equitable and objective implementation of rules. In other words, notification and surveillance were valid only in as far as there were multilateral rules which must and should be applied: to substitute them for the rules would be the beginning of the end of the system.

COMPENSATORY TRADE

176. The Chairman suggested that the Committee take up compensatory trade and recalled that the secretariat had produced a document on this subject for the Consultative Group of Eighteen.

177. The representative of Peru reiterated that Peru considered that compensatory trade was carried out because of the present economic situation with its serious problems of debt, payments problems, and protectionism. Many developing countries had found themselves obliged to enter into compensatory trade to sustain their development and the reimbursement of external debt. The study submitted by the secretariat to the Group of Eighteen had clearly stated that compensatory trade did not violate any of the provisions of the General Agreement. To this should be added that compensatory trade was essentially bilateral. Her delegation wished to repeat clearly its view that this type of trade could not be the object of multilateral negotiations in the new round.

FUNCTIONING OF THE GATT SYSTEM

178. The Chairman opened the discussion on the functioning of the GATT system by calling attention to the document PREP.COM(86)W/27 on this subject.

179. The representative of the European Communities referred to his delegation's view that the matter of the balance of rights and obligations and, in particular, the balance of advantages drawn by contracting parties from the GATT system, should be addressed in the Ministerial Declaration. This latter issue involved essentially economic considerations, representing a matter of major political importance. The Community's proposal was not directed towards any delegation in particular but should be seen as a means to ensure that the new round would produce results which could be seen as equitable for all participants. Failure to keep this principle in mind as a global objective during the course of the negotiations would create a real risk of failure at the end of the process. The proposal that Ministers should become more closely involved in the operation of the GATT required careful consideration: it could produce benefits but routine involvement of Ministers might in the long term prove counter-productive. Reinforcement of the rôle of the Consultative Group of Eighteen could also have value, so long as the purely consultative nature of the Group was borne very firmly in mind.

180. The representative of Japan did not believe that there was any imbalance of benefits among contracting parties. He recalled all negotiations in the GATT had been conducted on the basis of reciprocal and mutual advantage. While the GATT promoted a balanced exchange of concessions, it could not guarantee that such exchanges would result in a balanced trade account. It was incorrect to consider exports as a right or a benefit and imports as an obligation or disadvantage.

181. The representative of the United States said that all participants in the new round would be seeking to correct what they perceive as imbalances in the system. These perceptions would vary according to the trading interests of the contracting parties concerned. What was essential was that at the end of the negotiations all participants should be satisfied that a new balance, equitable for all, had been restored to the system.

182. The representative of Australia said that the functioning of the GATT system could have several meanings. The European Community's suggestion that there needed to be a balance of benefits, without which the round might not succeed, seemed to reflect the attitude that if one is displeased with the results from the system, one then seeks to change the rules. This attitude was evident in the functioning of the dispute settlement procedures, which had not yet produced a balance of benefits in agriculture. It would discredit the new round if the "balance of benefits" were interpreted narrowly as meaning the promotion of each participant's particular national interest.

183. The representative of Jamaica saw a relationship between the functioning of the GATT system and the "integration" of developing countries into that system. For example, his country was being integrated into the trading system through structural adjustment programmes which were financing the medium and longer-term restructuring of production and trade, and through which his country had autonomously liberalised trade in areas in which contracting parties including the developed contracting parties were granted increased access opportunities. This led him to consider that the functioning of the GATT system should be viewed in terms of the underlying philosophy of the GATT, i.e. that an open trading system promotes general welfare. If this principle were still accepted, "concessions" would be seen as acts of mutual benefit rather than as contributions solely to one or other trade partner. Imbalances between trade partners within the system did not necessarily mean that something was wrong with the system. For example, in some instances it would be appropriate to finance an imbalance in the merchandise trade account by inflows of capital.

184. The representative of Switzerland agreed that the functioning of the GATT system should not be an item for individual negotiation. The purpose of the negotiations would be to repair some of the weaknesses of the GATT system and to restore, consolidate or enlarge some of its provisions. It was impossible to negotiate the impact of these rules as this would depend on their application, or non-application. It was important to distinguish between the functioning of the GATT system as such and the functioning of the GATT as an institution. Concerning the former, and with respect to more adequate coordination of work in GATT and work on financial and monetary relations (as mentioned in paragraph 3 of PREP.COM(86)W/27) he agreed with the representative of Jamaica that trade measures were usually undertaken as a last recourse after other policies had failed. Trade policy should not be used to resolve financial or monetary problems, but rather to establish the conditions under which the trading system could best function and contribute to international economic cooperation. This would improve the functioning of the GATT trading system. Concerning the latter, and regarding greater Ministerial involvement and a strengthened rôle for both the Consultative Group of 18 and for the secretariat, it would be necessary to be very clear as to the purposes of any changes proposed: regular meetings of Ministers called for no particular purpose would not be helpful.

TRADE IN HIGH-TECHNOLOGY GOODS

185. The Chairman opened the floor to discussion on trade in high-technology goods. There were no speakers on this item.

TRADE-RELATED INVESTMENT MEASURES

186. The representative of the United States said that at the earlier sessions of the Preparatory Committee, the US had made a lengthy intervention on two aspects of investment, the first dealing with the question of so-called trade-related investment matters; the second with broader aspects of investment. He recalled two major points for reflection: first, the GATT should examine ways to regulate government policies which negatively affect private investment and its trade implications; secondly, GATT discussion of issues such as national treatment or right of establishment would not represent a frontal assault on national sovereignty. The new round should take up trade-related investment measures with a view to developing standards disciplining the use of performance requirements. The US would, at an appropriate time in the Committee's deliberations, suggest specific language for inclusion in the Declaration.

187. The representative of Japan said that his delegation supported the view that foreign investment encouraged the growth of the world economy, particularly of the developing countries, by promoting trade, transferring technology and creating jobs in the receiving countries. His government's view was that the elaboration of rules for application of the relevant provisions of the GATT to such trade related investment measures, in order to provide greater uniformity and certainty in this field, could be usefully considered in the new round.

188. The representative of India said that his delegation's views remained unchanged; India did not see this question as being any part of the work of the GATT. His delegation could not accept that the new round should include any examination of investment measures, trade related or otherwise.

189. The representative of the European Communities noted that it was not a question of discussing investment measures, but of discussing those measures linked to investment which have consequences on trade, i.e. investment related trade measures.

190. The representative of Jamaica asked whether trade related investment measures related only to capital-importing countries or also to capital exporters. The debate so far suggested that the Committee was discussing only measures taken by the countries in which investments were made. He wondered whether there were any relevant trade related investment measures taken by the countries which provided the investment.

191. The representative of the United States said that he felt this question was interesting: it would be most appropriately answered in the course of the negotiation on the subject. He looked forward to doing that.

192. The representative of Chile said that his delegation was still studying this subject and was not in a position to commit itself on it. He asked whether the United States' reply referred to legislation which made access to markets conditional on the nature of the actual measures, or on the domestic content of production by the exporting enterprise.

193. The representative of Brazil said that his delegation's position had not changed since the last meeting of the Preparatory Committee. They continued to object to the inclusion of this item in the agenda for the new round.

194. The representative of Argentina also reiterated that the subject of investment, which was outside the competence of the General Agreement, should not be included in a new round of negotiations.

195. The representative of Jamaica recalled that at the last meeting, his delegation had taken no position on the matter. He thought it could have been useful to hear arguments which might convince delegations that there were legitimate and compelling reasons for this question to be listed as an item on the agenda. The representative of the European Communities had stated that they were not prepared to discuss all and any investment issues, but only certain issues which had consequences for trade. He asked the Community representative to specify what specific trade related investment measures his delegation had in mind.

196. In reply, the representative of the European Communities said that although it would be for the negotiations to discuss the exact content of this item, one example of measures which had an effect on trade was local content requirements, which could have effects similar to an import restriction, by limiting the investor's right to bring components from another country. One measure on the export side could be a requirement for an investor to export a given percentage of output, which introduced distortions in international trade.

RESTRICTIVE BUSINESS PRACTICES

197. The representative of Jamaica said that there were obvious links between trade related investment measures and restrictive business practices. As to the former, it appeared to be suggested that the GATT might now draw up rules which would limit the ability of a country receiving foreign inward investment to impose certain requirements on the investor. It would seem to him to be difficult to intervene in this way in the terms of a contract between two sovereign entities. It would also be difficult to distinguish clearly between requirements of this kind and certain business practices that might be considered restrictive. Although some countries which supported the inclusion of investment on the agenda of the new round had opposed the inclusion of restrictive business practices, there seemed to be a relationship between potential restrictive business practices and trade related investment measures. Jamaica believed that restrictive business practices had been treated in GATT in the past and that a priori they should not be excluded from consideration as a possible subject for negotiations. It should be remembered that the bulk of international trade is conducted by private enterprises.

198. The representative of India repeated that, for the reasons which had been made clear in earlier statements, his delegation retained all its enthusiasm for the inclusion of restrictive business practices as a legitimate part of the agenda for the proposed new round.

RELATIONSHIP BETWEEN THE NEW ROUND AND MONETARY AND FINANCIAL DEVELOPMENTS

199. The Chairman then moved on to the relationship between the new round and monetary and financial problems. He recalled that this subject had also been discussed previously, as well as arising under other items in the present series of meetings.

200. The representative of Peru recalled that during the 19 March meeting of the Preparatory Committee, Peru had noted that the debt crisis was the expression of the inadequate functioning of the international monetary and financial system: fundamental reform of this system would help solve the problem of the heavy burden of debt, which prevented developing countries from fully participating. Exchange rate fluctuations were just one element of a very complex monetary and financial system, although obviously abrupt changes in exchange rates provoked difficulties in international price relationships. It had been noted in the Tokyo Declaration that economies faced difficult challenges which might endanger the whole system. The Declaration mentioned unemployment, internal imbalances, uncertainty as concerned exchange rates, the persistent pressure of protectionism and the burden of debt servicing. Peru had earlier suggested that the Committee should recommend that a United Nations conference on monetary and financial problems should be held in order to create an equitable system. This suggestion reflected a declaration by Latin American countries that something substantial needed to be done: also, the Group of 77, during the most recent UNCTAD Trade and Development Board, had also asked for such conferences in which developing countries could participate fully.

201. The representative of Cuba supported the proposal by the representative of Peru, that the Ministerial Declaration should recommend that a United Nations conference on the international monetary and financial system should be convened.

MODALITIES AND INSTITUTIONAL ARRANGEMENTS FOR THE NEW ROUND

202. The Chairman drew attention to the Secretariat document PREP.COM(86)W/26.

203. The representative of Jamaica offering preliminary replies to the questions in PREP.COM(86)W/26 said it would seem necessary to spell out negotiating modalities in specific negotiating areas - for example in agriculture, in the area of differential and more favourable treatment for developing countries and in any new areas included in the agenda. It would also seem necessary for the Preparatory Committee to identify certain areas for prior treatment in terms of an early timetable for negotiations. This would certainly be so for standstill and rollback, and possibly for safeguards. Early implementation of results, where possible, should also be considered. As regards the enunciation of negotiating principles, it must be certain that any such principles would be capable of observance. Negotiating principles and rules should also be drafted in such a way as to be applicable to non-contracting parties. The Preparatory Committee should recommend an institutional structure for the negotiations and a date for their termination. The period of negotiations might be three years, and it should be made clear that the implementation of results in particular areas need not necessarily await the termination of the negotiations as a whole.

204. The representative of Colombia said that the Preparatory Committee should spell out negotiating modalities in specific areas and should identify priorities in terms of early conclusion of negotiations. On tropical products, the Committee should recommend a timetable for the negotiations and the manner in which concessions granted on these products should be implemented. The Committee should also recommend an institutional structure and a termination date for the negotiations.

205. The representative of Japan said that as regards modalities, the subject matters for negotiation could be divided into four separate groups: (i) improvement and strengthening of the GATT system and rules; (ii) reduction and elimination of trade barriers; (iii) trade in agriculture; (iv) the response of GATT to new issues. In each of these areas specific subjects to be negotiated could be indicated, together with negotiating modalities for each subject, without excessive detail. As regarded negotiating priorities, it would seem difficult for the Committee to identify specific subjects for early negotiation. Japan proposed the following text for inclusion in the Ministerial Declaration: "the negotiations shall be considered as one undertaking, the various elements of which shall basically move forward together while consideration being given to the possible early implementation of agreements reached according to the progress of the negotiations." Japan also proposed a review of progress in the negotiations at Ministerial level by the end of 1987. The negotiations should be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity. The Ministerial Declaration should include the outline of the institutional structure for the negotiations and a Trade Negotiations Committee should be established to elaborate and put into effect detailed negotiating plans and to supervise the progress of the negotiations. The Declaration should also specify 1989 as the target date for conclusion of the negotiations.

206. The representative of the European Communities suggested that it would be wise to agree on a duration of the negotiations; a period of four or five years would seem appropriate. The negotiations should be under the authority of a single Trade Negotiations Committee which would be responsible for organising their structure according to the nature of the subjects to be negotiated; in this context Japanese ideas seemed useful. There should of course be a single group with responsibility for all aspects of the negotiations on agriculture. Negotiations should proceed in parallel on the various subjects, progress being made in a balanced manner. The same would in general apply to the implementation of results, though at this stage the Community would not wish to exclude the possibility of early implementation of results which would not seriously affect the balance of the overall package. The speaker reminded the Committee that he had earlier pointed to the need for all participants in the negotiations to have access to detailed and up-to-date information through a computerised Data Bank. For example, in the tariffs sector adequate information was at present available only on twelve markets, and a similar situation obtained in other areas. A lack of comparable data could become a serious impediment to negotiations. Consultations on this subject, involving the secretariat and the Chairman of the Preparatory Committee, should be undertaken urgently.

207. The Chairman replied that proposals on this subject, and on the computerization of information generally, were being made to the Budget Committee. He also informed the Committee that he had recently been obliged to deal with problems arising from a proposal to remove part of the UN Data Bank from Geneva to New York, which would create serious problems for GATT and for several other Geneva organizations which made use of it.

208. The representative of Switzerland said that the negotiations would have to be a single package within which Switzerland envisaged three groups of problems. These would relate to the strengthening of the GATT system and the improvement of its functioning; to problems of market access and trade liberalization; and to the improvement of the economic environment through the better integration of trade and trade policies into the general structure of international economic cooperation. There should be three main negotiating groups covering these subject groups under the authority of a Trade Negotiations Committee. This would have the advantage that participation in the three negotiating groups could vary according to the nature of the subject under discussion. Negotiations on the rules and functioning of GATT could, for example, be confined to contracting parties while those on the liberalization of trade could be open to other interested countries. Only such a structure would be likely to produce comprehensive, balanced and lasting results. Since it was clear that the negotiations would take a number of years and that the solution of certain acute problems should not be delayed so long, it might be appropriate to envisage, in association with the stand-still commitment, certain interim measures which could either lapse with the end of the negotiations or be incorporated into their results. The political commitment to rollback at the end of the negotiations should also be borne in mind.

209. The representative of Korea said that the modalities for negotiations on each subject should be formulated by the negotiating group concerned but should be consistent with the overall objectives of the new round. The Preparatory Committee should identify priority areas in terms of an early timetable for negotiations, thus setting the priorities for the agenda.

210. The representative of Australia, commenting on a point made by the representative of the EEC, said that modalities for the negotiations on agriculture must take account of the fact that agricultural trade suffered from almost all of the generic problems now affecting the GATT system. Tariffs, quantitative restrictions, subsidies and safeguards were all relevant to agriculture, and the essential problems in agriculture could not be properly addressed if there were to be a rule that agriculture could be discussed in only one group. Very careful thought should be given to the modalities most likely to guarantee progress and substantive results. It was disturbing to hear major participants stress the need for a balanced package of results if this implied that the entire package could be held up by lack of progress in one particular area. Commenting on the point made by the Community about the need for a comprehensive data base for the negotiations, the representative of Australia agreed that it would be desirable for more countries to participate in the tariff exercise: he also hoped that the Community would be willing to participate in a quantitative analysis of the trade effects of non-tariff measures. He was not clear why the transfer of the UN Data Base to New York should inhibit the secretariat but suggested that an analysis of this problem might be put before the Budget Committee.

211. The Chairman replied that information on this would be provided as soon as possible - the existence of the problem had only been known to him for ten days - but that it was already clear that the matter was not as simple as the representative of Australia suggested.

212. The representative of the European Communities indicated that he had communicated to the UN his delegation's concern about the transfer of the Data Base from Geneva to New York. This appeared to be motivated by concern for economy, but no account had been taken of the extra expenses that would fall upon users of the service. As to the GATT tariff study, which at present covered only twelve markets, it was important that its coverage should be extended to as many contracting parties as possible - particularly for those smaller countries which might not be able to produce their own computerised data base.

PARTICIPATION IN THE MULTILATERAL TRADE NEGOTIATIONS

213. The representative of Cuba said that her government believed that the new round should be open to participation by all countries notifying their interest to participate to the Director-General within an appropriate period of time. This was the formula that had been adopted for the Tokyo Round, and could be found in paragraph 1 of the Tokyo Declaration.

214. The representative of the European Communities said that, apart from contracting parties, participation in the negotiations should be open only to those countries having provisionally acceded to GATT, those applying the GATT de facto, or negotiating for membership, and former contracting parties. Participation in the meeting itself would depend on the nature of the meeting. While there were existing guidelines for participation in a meeting of the contracting parties, this issue would have to be discussed in the specific context of the Ministerial Meeting. Concerning the attendance of observers, he asked whether there were any country or organisation observers in the Trade Negotiations Committee and in the negotiating groups during the Tokyo Round. The Chairman said that the secretariat would provide a paper on this question.

215. The representative of Czechoslovakia said that his country supported using the same formula for participation as was used in the Tokyo Round.

COMMODITY PRICE STABILISATION

216. The representative of India said that his delegation had been among those actively supporting the addition of this item to the list of subjects proposed for inclusion in the agenda. At this point his delegation was preparing a formulation on this item which could in due course be fed into the work of the Preparatory Committee.

WORKERS' RIGHTS

217. The representative of the United States said that the summary records of the previous meeting had reflected accurately the views of his delegation on workers' rights. His delegation had noted that international labour standards were relevant to a number of GATT principles and Articles, including safeguards, and had emphasised that trade expansion should not be considered as an end in itself but rather as a means of raising living standards and bringing benefit to workers in all trading countries. These points should be borne in mind while drafting the Ministerial Declaration.

218. The Chairman said that the Committee had completed the list of items for discussion. He encouraged delegations to begin drafting texts for inclusion in the Declaration and to send them to the secretariat. On its side, the secretariat had drafted some texts in the form of "non papers" which were available to any interested delegations. He intended to use the month before the next meeting of the Committee, scheduled for 9-12 June, to conduct intensive informal consultations to push forward the drafting process. Maximum transparency, which would be necessary during this informal process, would be maintained through the regular meetings of this Committee. The discussion of national positions should now be regarded as concluded, the remainder of the work being concentrated on the drafting of the Declaration.

ADMINISTRATIVE ARRANGEMENTS FOR THE MINISTERIAL MEETING

219. The Chairman invited the Ambassador of Uruguay to make a statement on the administrative arrangements for the Ministerial Meeting.

220. The representative of Uruguay informed the Committee that his Government had appointed a National Organising Committee with responsibility for the administration and organisation of the Meeting to be held in Punta del Este. The Committee was presided over by the Minister for Foreign Affairs and consisted of the Under-Secretaries for Public Works, Tourism, the Interior and Foreign Affairs, together with representatives of the Presidency and of the county of Maldonado. The general coordinator of the work would visit Geneva as often as necessary to ensure the success of the Meeting. Action groups had been set up to deal with Infrastructure, Lodging and Transport, Press, Security, Protocol and Public Relations, General Services, Personnel Questions and Administration and Office Supplies. The delegation of Uruguay would very shortly circulate an information note on administrative questions including transport, security, communications and offices.

221. In conclusion the Chairman called attention to the need to move from the phase of general discussions to that of drafting, and invited delegations to make available to the secretariat in writing, whether formally or informally, any proposals they wished to make for inclusion in the Draft Declaration.

222. The representative of the European Communities asked if it was the Chairman's intention to request the various GATT Committees, including the Committee on Trade in Agriculture, to report on the state of their work to the Preparatory Committee. He believed that such reports would help in the drafting of the Declaration.

223. The Chairman replied that all GATT Committees or Working Groups wishing to submit reports to the Preparatory Committee were welcome to do so.