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NOTE ON PROCEEDINGS OF THE SEVENTIETH SESSION
Prepared by the Secretariat

Chairperson: H.E. Mrs. Narcisa L. Escaler (Philippines)

1. The following subjects were proposed for the agenda of the Seventieth Session: (i) review of developments in international trade and in the Uruguay Round; (ii) review of the implementation of the provisions of Part IV and the operation of the Enabling Clause; (iii) technical assistance to developing countries in the context of the Uruguay Round; (iv) work of the Sub-Committee on the Trade of Least-Developed Countries; (v) other matters. With regard to "other matters", the Chairperson said she intended to raise under that item the question of the future rôle of the Committee on Trade and Development after the Uruguay Round. She believed that within a strengthened GATT, which would hopefully result from the Uruguay Round negotiations, the Committee on Trade and Development should become more effective in addressing issues of particular relevance to trade between developed and developing countries and increase its contribution towards the objective of promoting the trade and development of developing countries. A final decision on the future rôle of the Committee would obviously have to be taken when the results of the Round were known. However, a process of reflection on this matter might usefully be initiated in the near future. It was her understanding that several delegations wished to address this issue. She therefore invited those members of the Committee wishing to do so to refer to this subject matter in the course of the discussions at the present Session.

2. The agenda was adopted with the addition suggested by the Chairperson with regard to "other matters".

Item (i): Review of developments in international trade and in the Uruguay Round

3. The Chairperson observed that for the purpose of the review of developments in international trade and in the Uruguay Round, and of the implementation of Part IV and operation of the Enabling Clause, the Secretariat had prepared a note (COM.TD/W/486) which contained background information of relevance to those two items of the Agenda. Section I of the note highlighted recent developments in international trade that had a bearing on the trade and payments situation of developing countries. Section II contained a brief overview of recent developments in trade policies of relevance to the operation of Part IV and of the Enabling Clause. Section III referred briefly to specific topics pertaining to the Uruguay Round which were previously discussed in the Committee on Trade and Development.

4. The Chairperson invited members of the Committee to take up in the discussion those developments in international trade which in their view had a particular bearing on the trade of developing countries. In reviewing such developments the Committee might also focus on trade policy aspects which could usefully be discussed in the light of its terms of reference. Such aspects could include greater integration of developing countries in the multilateral trading system as testified by recent accessions of developing countries to GATT and the trend towards outward-looking trade policies in developing countries. It was further recalled that the Committee was also keeping under review developments in the Uruguay Round of interest to developing countries, including developments in the negotiating bodies of the Uruguay Round with regard to special and differential treatment, fuller participation and reciprocity. In the past, the Committee had examined a number of specific topics in the Uruguay Round which were of particular relevance to trade between developed and developing countries, such as interlinkages between trade, money and finance, and credit and recognition for trade liberalization measures undertaken by developing countries. Committee members might, if they so wish, revert to such topics or take up any other specific topics of interest to them.

5. A large number of delegations had praised the efforts made by the Chairperson to carefully prepare the present Session of the Committee through a process of intensive informal consultations, as well as her determination in seeking appropriate ways and means for increasing the contribution of the Committee towards promoting trade and development.

6. A number of representatives addressed the topic of the trade and finance link in particular the debt problem. Their views are summarized in paragraphs 7 to 21 below.

7. The spokesman of a group of countries emphasized that the Committee on Trade and Development should be better used by contracting parties in order to carry out work on development issues. One issue which clearly had a bearing on development was indebtedness. So long as this problem was not really solved it represented a threat for development. He had raised this issue in previous discussions relating to interlinkages between trade, money and finance and the need for greater coherence between policies in these areas. Regrettably he had received limited and rather timid support only from a number of developing countries. He was convinced that these matters were of fundamental importance and had, therefore, to be addressed in GATT as well. The Punta del Este Declaration contained specific provisions with regard to development, a concept which should be dealt with in all its aspects in GATT work, including in the relevant background notes prepared by the Secretariat. He also noted that another issue of relevance to any discussion on development was that of environment; the link between the two issues was perhaps not fully understood at the Punta del Este meeting. The speaker further recalled that in other appropriate fora where the debt problem was being discussed its relationship with trade was recognized. As evidence of that was the fact that the magnitude of the debt problem was assessed, inter alia, in comparison to the volume of trade of indebted countries. There should be the same recognition of the link between the two issues in GATT and, in particular, in the Committee on Trade and Development.

8. Referring to his statement made at the June 1989 Session of the Committee reflected in paragraphs 4 to 8 of document COM.TD/129, the speaker clarified a few points in order to update that statement. First, the reference in paragraph 5 of the document concerning the transfers of funds by developing countries to industralized countries which had been greater than the funds that the former had been receiving from the latter should not be understood as relating to capital transfers. In the 1980s, capital transfers had always had a positive balance for developing countries. It was the net financial transfer which started to be negative from 1984 onwards with a slight improvement in the 1990s which might not last. Second, the development of internal consumption should not be seen as an alternative solution to the problem of indebtedness. It was of course important that strong domestic demand supplement export growth, but domestic consumption only could not solve the debt problem, especially the amortization of the debt. Third, the figure of US$52 to US$56 billion, representing the annual interest rate payments by developing countries, was still valid but an annual amount of US$67 billion for the repayment of principal should be added to this. With these three clarifications, the statement as reflected in the above-mentioned document was still valid.

9. The representative further noted that although for technical reasons more precise figures on the debt of industrialized countries were not easily available, the total world indebtedness could be roughly estimated at a level between US$2,000 to 2,500 billion. Countries such as France and the United States for example had an external debt of US$10 billion and US$664 billion respectively. Though approximate, these figures gave an idea of the dimension of the debt problem world-wide. It should also be noted that a number of developed and developing economies such as Brunei Darussalam, Hong Kong, Japan, Singapore, Taiwan and the United Kingdom were net creditors. As regards the debt of developing countries in 1990, this was estimated at US$1.341 billion. The ratio of debt to exports was 185 per cent, while the debt servicing represented almost 20 per cent. These figures had decreased as compared to 1989. Surprisingly, in 1989 the net financial transfer for developing countries became positive amounting to approximately US$9.3 billion. This reversal was a consequence of the Brady Initiative which had brought about great benefits for countries like Mexico and Venezuela, and to a lesser extent, for other countries such as the Philippines and Costa Rica.

10. Recalling that the debt crisis had initially started in 1982 in Mexico, the representative said that the main cause of the crisis was the enormous surge of the indebtedness of developing countries since the oil-shock coupled with subsequent increases in interest rates and depressed prices for commodities and raw materials on which many developing countries were still dependent. Instead of using orthodox and more painful means for coping with the crisis and ensuring the implementation of their development programmes, developing countries found it easier to have recourse to external financial resources as international liquidity was at the time abundant. However, the new loans obtained had involved more and more difficult conditions. This was due to the fact that developing countries were not in a position to undertake the necessary adjustments in their economies while maintaining their development strategies. It might also be argued that the debtors could

have made better use of the fresh money obtained. However, to a certain extent the responsibility for the debt crisis was shared between the debtors and creditors.

11. The representative further remarked that the notion of net financial transfer was somewhat fallacious. It represented capital inputs less interest and profits paid outside the countries. Negative net financial transfers were not necessarily bad. All depended on the increase in resources generated by foreign investment in the country concerned through additional exports. The most striking but not commendable example was Korea which always had negative financial transfers and at the same time a phenomenal development, but at the expense of domestic balances and in particular domestic consumption. This proved that the qualitative productivity of invested capital could not easily be measured in a precise manner. Therefore the figures should be used with caution.

12. During the last decade the appropriate financial fora i.e. the IMF and the World Bank with the support of the industrialized countries had been testing a strategy for solving the debt problem. The purpose of this strategy was to create conditions which would allow new foreign investment and ultimately support domestic development. The approach followed involved two basic elements. First, the adoption by indebted countries of drastic structural adjustment policies for reducing macroeconomic imbalances. This objective should have been achieved through new loans, but so far the results had been limited. The second element involved negotiated measures to alleviate the debt burden. So far, the first element had remained intangible which was a source of concern for developing countries. The second element had been modified and improved. The creditors, whether from private or public sector, had been progressively adopting a more open and liberal attitude towards their debtors. Up until 1987, the main emphasis was on debt-restructuring or rescheduling. Since 1987, the notion of debt reduction through partial cancelling out of the debt or equivalent measures had been progressively put into practice. Such measures varied very much in relation to the economic situation of indebted countries. For the poorest countries, most of which were in Sub-Sahara Africa, the approach used in 1987-1989 consisted in converting the debt into grants within the official development assistance. In addition, since 1988 bilateral measures other than those included in official development assistance had been adopted in accordance with the decisions taken at the Toronto Economic Summit. For middle-income countries, which included most indebted countries, the solution selected was that proposed by Mr. Brady, US Secretary of Treasury, at the beginning of 1989. This initiative dealt mainly with the commercial debt. It consisted of buying back the credits at interesting conditions while providing fresh money in order to relaunch investments and growth since without growth the debt could not be reimbursed. Yet growth could not be revigorated without investment, particularly foreign investment. These features of the Brady Initiative should be better studied as the initiative was beginning to bear its first fruits. As evidence of that were the positive financial transfers registered in 1990 whose beneficiaries were precisely those countries which had benefited from the Brady Initiative. However, this initiative should be followed by further action in the field of public financial assistance. This was being done now by the Paris Club.

13. The representative further said that the debt strategy as outlined briefly above should in his view be evaluated at two levels: (i) the debt burden and (ii) the net transfer of resources. As regards the debt burden there had been an obvious improvement which apparently would continue. The debt service in relation to exports had dropped from 28 per cent to 20 per cent. Overall debt as compared to export-value of developing countries had fallen from 237 per cent in 1987 to 187 per cent in 1989 with a further drop to 185 per cent in 1990. Yet these were preliminary results covering a period of only three years. In this respect, the representative wondered to what extent the current strategy designed by the financial institutions, and in particular by creditor industrialized countries, could continue to bring about positive results. In this connection a number of comments and questions were relevant. First, the strategy should not remain static. It should take account of the developing countries' exports since any debt strategy must be based almost exclusively on exports, i.e., on trade. Those who did not recognize this link were just trying to close their eyes to the facts of life. The debt problem should be dealt with in the light of its relationship to trade. As previously stated, this did not mean that debt solutions should rely only on export growth since the solvent international markets were limited and structural adjustment policies based on exports alone led to domestic imbalances. However, the trade variable had to be taken into account in particular at a time when the international economic environment was surrounded by uncertainties or variations related to the economic situation of individual countries, the possible consequences of the Gulf crisis and the balance-of-payments difficulties experienced by many countries, in particular by developing countries. Moreover, the positive net financial transfer recorded in 1990 was mainly the result of action taken in the case of only four highly indebted countries. It was not clear to what extent other countries would follow the Brady Initiative and and how the specific problems of certain categories of countries such as the least-developed countries would be taken into account. All these comments and questions led the representative to believe that any debt strategy should be flexible and able to adapt itself to specific circumstances. The IMF had attempted to explore an alternative strategy but had failed since it had not been approved by industrialized countries. Nevertheless, among the elements of an alternative strategy the idea of debt-reduction was more frequently evoked. A recent study by the IMF pointed out that a 10 per cent debt reduction through buy-back operations might lead to an initial increase of 1.7 per cent of the GDP in the countries concerned. After all, the debt-reduction idea might not be a bad one in so far as it ensured further growth which was a prerequisite for expanding trade. These measures would have to be supported by adequate trade policies and associated rights and obligations in this field, an aspect which thus far had not received the necessary attention. Up until now, trade policy makers had to accept the conditions laid down by financial creditors even if sometimes this entailed difficulties in the trade field. While there was no alternative to the current debt strategy it should be possible to improve it. Some steps in regard to the poorest countries and the public debt were already being taken. Still there was further need for mutually supportive policies in the financial and trade areas in order to promote solutions for the debt problem. This issue could not be solved without addressing it in a constructive and comprehensive dialogue. Such a dialogue should take place in GATT as well, including in the Committee on Trade and Development.

14. Another representative acknowledged the efforts made by the previous speaker for discussing in GATT the trade and finance link. If this issue, including the debt problem, were not adequately dealt with in GATT from its specific prospective this would have negative consequences on both the GATT and the Uruguay Round. He regretted that the efforts made in the Committee to discuss those issues had not always been successful. Even if some trading partners had the power to oppose discussing such issues this would not make them disappear as real problems. Commenting further on these matters the representative questioned the logic of pursuing a campaign within the GATT for limiting the recourse of developing countries to Article XVIII:B at a time when many such countries were facing balance-of-payments difficulties. The representative also recalled his country's efforts to generate very large trade surpluses which had been almost entirely transferred to its creditors. This involved great sacrifices from consumers and the poor sections of society and had adverse effects on imports which attracted complaints from trading partners. Subsequently, a policy of opening up the market was adopted. He wondered whether his country would receive the help and support of the relevant international financial institution in its relations with creditor banks in case the policy of market-access expansion entailed negative results on servicing the debt. So far the answers to those questions had been conventional since they tended to overlook the political and social realities of his country. While acknowledging that considerable progress had been made in the debt strategy, the representative felt that it had not really taken into account two important aspects. One was the capacity of the indebted country to pay the debt which had to be assessed not only in terms of fiscal capabilities but also in relation to social problems. In this regard it was important to keep in mind the specificity of each indebted country. For some countries where the financial resources to pay the debt were produced in the public sector, it was easier to undertake fiscal adjustments. In his country such resources were generated in the private sector while the public sector, which had to manage the debt problem, could find the necessary resources but only at the expense of social programmes and inflationist measures. The second aspect was the trade policy variable, in particular the reasonable level to be allowed for imports in order to ensure development. In this respect the representative noted that certain countries could afford higher trade deficits as they would be able to attract foreign investments for development purposes while others, which were not in a position to follow such examples, had to set limits to their trade liberalization process. Therefore, a universally valid approach to the debt problem was not possible.

15. Several other delegations reiterated the importance attached by them to examining the trade and finance link with a view to achieving greater coherence between policies in these areas. They expressed appreciation for the contributions made to the debate by the previous two speakers. Some representatives emphasized that there could not be a uniform solution to the debt problem. However, under the case-by-case approach currently being followed, the specific situation of individual countries had to be taken more fully into account. Another point made was that current strategies discriminated between public and private debt, giving preference to finding solutions to the latter.

16. According to the views expressed by several representatives a number of issues were not adequately dealt with or were insufficiently taken into account within the existing debt plans. These plans tended to overestimate the scope of reviving growth through domestic reforms alone and also the capacity of indebted countries to engage rapidly in an export-oriented pattern of growth. In this context, it was also recalled that the repayment of debt coupled with currency devaluation always had an adverse impact on domestic social programmes. Other internal factors, such as the level of development and the structure of the economy, also had a bearing on the domestic capacity of indebted countries to achieve export-led economic growth. Inappropriate conditionalities involved in structural adjustment programmes were also an element which adversely affected the economies of indebted countries and their social and political stability.

17. Moreover, a number of external factors had limited the results of the strategies. As a result of the changing structure of international trade, growth was taking place in sectors where commodity-dependent countries were not yet producers or where they were in the early stages of production. The international trading environment was not supportive of the efforts of indebted countries to expand significantly their exports. Commodity prices were depressed, protectionism in major markets, including through grey area measures and disguised forms of protection such as anti-dumping actions, continued. In addition, huge trade surpluses created in certain indebted countries entailed new protectionist reactions from their trading partners. It was also recalled that many developing countries had adopted significant trade liberalization measures and more outward-looking policies for which they expected "credit" and "recognition" from their trading partners, especially in the form of increased market-access opportunities which would support the efforts of indebted countries. The absence of an improved international financial environment and in particular the decrease in official development assistance and the difficulties in finding new funds, were also cited among the factors which impaired the efforts made by indebted countries.

18. Some representatives recalled the emergence of net creditors among developing countries and expressed appreciation for the financial assistance received from them. Other representatives stressed the need for positive answers to the proposals made by them in the Uruguay Round which were aimed at increasing the ability of indebted developing countries to face their international financial obligations through an improvement of the trading environment and at preventing the possible negative consequences of the agricultural reform on net food-importing developing countries.

19. Referring to the question of "interlinkages", another representative recalled that extensive discussions had already been held in the FOGS Negotiating Group. Their results were reflected in the Draft Ministerial Declaration that was presented to the Brussels meeting. Referring to this, her delegation wished to reiterate the view that the most effective contribution that GATT could make on "greater coherence" consisted in intensifying the work towards concluding the Uruguay Round.

20. In response to comments made on indebtedness, the spokesman whose views were reflected in paragraphs 7 to 13 above, noted that many representatives spoke along the same lines as himself. Past discussions on this topic which had been persistently raised in GATT by his delegation in the last two years had unfortunately been characterized by a lot of misunderstanding and mistrust. Now it appeared that the beginning of an answer was emerging. Referring to the emphasis placed by a number of developing-country representatives on the need for market openings by developed countries, the speaker stressed that there should be no doubt that developed countries act in good faith. Solutions to the debt problems had been found with the help of creditor countries and developed countries were not closing their markets in order to prevent developing countries from solving the debt problem. However, it should be kept in mind that there was a limit in absorbing exports of indebted countries. As regards the reduction of debt, this was a new idea which was gaining ground. Debt reduction was unavoidable as new money had to be channelled to indebted countries for production and consumption purposes. Nevertheless, debt reduction could not go very far since this would not be equitable to those countries which had handled their debt problems properly. Another aspect was that finding fresh resources was not sufficient. These resources had to be managed adequately by receiving countries through policies based on market-forces which would ensure their best allocation. The representative further said that the Brady Initiative should be prolonged in a flexible and rational manner. As regards public debt he recalled that this was being dealt with by the Paris Club.

21. Commenting further on the questions raised by a previous speaker in paragraph 14 above, the representative acknowledged that those questions were fundamental. He recognized that trade liberalization had its own limits and that these had to be taken into account in any debt reduction approach. As regards Article XVIII:B, the right of developing countries to have recourse to its provisions was not questioned. The concern with regard to this article was related to the manner in which it had been used and abused. The speaker further said that the trade variable was not yet well known and it should be better understood first of all in GATT and taken into account in all debt strategies. On this, and other matters which had a bearing on development such as environment, the Committee should make an effective contribution.

22. A number of developing-country representatives referred in their interventions to recent developments in international trade and in the international trading system.

23. Some representatives noted that while in 1990 some positive evolutions had been registered in international trade, including in the trade situation of certain developing countries, the picture was less positive in respect to the international trading system where protectionist trends persisted. Other negative trends such as unilateralism, bilateralism, regionalism and discrimination had tended to increase. This raised the question of the consistency between the stated commitment of the industrialized countries to free trade and the actual conduct of their trade policies.

24. Some representatives noted that among the positive evolutions in 1990 was the more rapid growth of trade than of output, especially in developing countries. This showed the increased importance of the trade sector in their economies. However, in 1991 developing countries were facing a slowdown in economic growth in major industrialized countries and the prospect of a less positive export performance. The uncertainties regarding the outcome of the Uruguay Round rendered even more worrisome the possibilities of achieving a sustained growth in world trade in the short- and medium-term. The Uruguay Round, being the major on-going multilateral negotiation with impact on development, had mustered all hopes and efforts of developing countries in order to render a reinforced multilateral trading system more supportive of the struggle to raise the standards of living of the populations and to achieve a better distribution of world income. The Brussels Ministerial Meeting, however, had proven the complexity of this venture. If there was a lesson to be drawn from that meeting, it was perhaps that the major trading partners, although committed to make the Round a success, were not prepared to trade deep-seated privileges, be it in certain areas such as agriculture, or in dispute settlement through the non-use of unilateral measures, for a more open and fair world trading system.

25. Recalling that all the negotiating areas were important for the achievement of the objectives established in Punta del Este, one representative stressed that for developing countries -- and for his country in particular -- four areas were essential in order to derive benefits from the multilateral trading system. These were agriculture, market access, textiles and dispute settlement. Other areas, especially rule-making were equally important, but the above-mentioned four areas had a more direct bearing on the trade prospects of developing countries. These countries had entertained high expectations throughout the Round that its results would ultimately lead to improved market opportunities for products of their special interest and which were subject to high protection in the major economies. Developing countries had been opening their economies to the exports of the major trading partners, in areas such as telecommunications, informatics, pharmaceuticals and services in general, not to mention the many profound legislative and regulatory changes which had made their markets more attractive to foreign investments. The argument that developing countries should be patient and accept gradual reduction in the barriers maintained in developed countries to products of their export interest was, therefore, hardly convincing. In particular, an early implementation of liberalization measures for textiles, and tropical and farm products should form part of the results of the Uruguay Round. Several other representatives supported these views.

26. The representative also recalled that his country had undertaken a number of trade liberalization initiatives geared to the modernization of the economy and to making it more efficient despite the constraints of the protracted negotiations to find a solution for its external indebtedness. For example, since March 1990 all non-tariff barriers had been eliminated, the only exception being for certain informatics products where restrictions were due to expire by 1992. However, failure to achieve a satisfactory solution to the external debt problem, and/or to get better market-access for its exports in the Uruguay Round, might create

additional difficulties in sustaining the trade liberalization policy and ensuring at the same time a sound balance-of-payments position. Finally, the representative emphasized that the most prominent development in world trade was the formation of preferential blocks in different sectors. Most developing countries might thus be once again left out from benefiting from the integration of markets. Therefore, one of the topics that the Committee might examine in future was the consequences of various integrating schemes in the developed world for the trade prospects of developing countries.

27. In the course of the discussions held under item (i) of the agenda, a number of delegations made specific points with regard to the question of credit and recognition for autonomous trade liberalization measures adopted by developing countries. These are reflected in paragraphs 28 to 32 below.

28. One representative recalled that a number of suggestions on "credit and recognition" and had already been put forward in the Round by several countries. Those suggestions made a clear distinction between trade liberalization measures which would be bound and thus deserved credit, and measures which would continue to be applied on an autonomous basis and for which some form of recognition had to be defined. The latter case obviously required more imagination. It was important, however, to define approaches for recognition as autonomous measures adopted by developing countries involved greater market-access opportunities for their trading partners which had to be rewarded. One possibility could consist of providing increased, more secure and predictable market-access conditions to exports of the liberalizing countries, for example, within the GSP schemes applied by their trading partners. He felt that approaches for giving credit or recognition should continue to be explored in tandem in the Committee and in the Market-Access Negotiating Group.

29. Several other representatives emphasized the need for receiving credit and recognition for trade liberalization measures adopted by them. This would help the countries concerned to increase their exports and encourage them to maintain and pursue more liberal trade policies which provided greater trade opportunities for trading partners. One representative underlined the importance of avoiding criteria and conditions which would make it impossible to define approaches for giving credit and recognition for autonomous liberalization measures.

30. Another representative recalled that in previous discussions several delegations emphasized that the notions of "credit" and "recognition" were inherently different. "Credit" was extended in exchange for bindings in the usual GATT sense. "Recognition", to the extent that it applied to autonomous measures, was therefore a concept that did not fit well within the contractual nature of the GATT. This should not be weakened while seeking ways to give "recognition" which could be seen as parallel to other non-contractual, non-reciprocal measures such as tariff preferences. Her delegation would be interested in a more in-depth examination of several questions raised in previous discussions. These included:

(i) The measures for which "credit" would be sought. Would these be notified by the credit-seeking countries and to what form of

examination and verification would they be subjected? How a country interested in giving credit for a measure taken by another country would make its interest known? Could a cross-notification procedure be foreseen, especially if other parties were aware of measures potentially nullifying or impairing the trade liberalization accruing from a particular measure?

(ii) GATT inconsistent measures. It would seem that such measures did not deserve credit. It was also important that credit-seeking countries, particularly for the elimination/liberalization of non-tariff measures give assurances that such measures would not subsequently be impaired or nullified by GATT inconsistent measures.

(iii) Characteristics of bindings for which credit was sought. The binding should be at commercially-significant levels allowing trade to flow and leading to genuine market-access. Her delegation was willing to discuss particular situations and consider how the phasing in of a particular level of binding, for example, might allow the credit-seeking country to adjust to a lower binding, while also facilitating the granting of credit for that measure.

31. The representative felt that the examination of such questions in the Committee, perhaps in an informal session might be helpful and contribute to the work in the Market-Access Group in relation to "credit" and "recognition".

32. Another representative shared the views expressed by the previous speaker concerning the distinction between "credit" and "recognition". However, he felt that finding ways to encourage developing countries to bind autonomous trade liberalization measures and/or to take intermediary steps towards bringing such measures into the GATT was important. The search for solutions should of course take into account the specific reasoning put forward by the previous speaker. He believed that "recognition" could not be quantified. It could only be of a qualitative nature, e.g., in the form of autonomous measures by trading partners which would at the same time have the necessary credibility.

33. A number of delegations, in particular developing-country representatives, made further comments as to the <u>future rôle of the Committee on Trade and Development</u>. In this respect, it was emphasized that the Committee should have a more active rôle in fulfilling its responsibilities in relation to promoting trade and development. In the view of some delegations the Committee had not been fully utilized by contracting parties. The Committee was the most appropriate standing body in GATT where the inter-relationship between trade and development should be addressed in the light of the objectives of the General Agreement. It was important to intensify the dialogue in the Committee with a view to making its work more action-oriented.

34. In concluding the debate under item (i), the Chairperson noted that delegations generally agreed that a further discussion on "credit and recognition" in the Committee would be useful. This would be done while maintaining a close contact with the work on this issue in the Market-Access Negotiating Group. Although there seemed to be less convergence of views on the usefulness of pursuing the debate on the trade and finance link, it might be helpful if the dialogue on this matter could be pursued somewhat further in an informal setting and without commitment to the official positions of governments. She therefore proposed that an informal meeting of the Committee be held in which both these issues could be reverted to under the broader cover of an initial examination of the future rôle of the Committee on Trade and Development. The Chairperson also said that she would revert to this proposal at the end of the meeting.

35. The Committee took note of the statements and comments made by delegations and the remarks made by the Chairperson.

Item (ii): Review of the implementation of the provision of Part IV and of the operation of the Enabling Clause

36. For the purpose of the review of the implementation of Part IV and the operation of the Enabling Clause at the present meeting, the Committee had before it a number of recent notifications made by Austria, EEC, Finland, Japan, Norway, Poland, and the United States concerning their respective GSP schemes. A further notification on Andean Group activities was also before the Committee. In addition, the Committee had before it the note prepared by the Secretariat (COM.TD/W/486) which, in its Section II, contained background information of relevance to the review of the implementation of provisions of Part IV and the review of the operation of the Enabling Clause. The Chairperson recalled that GSP schemes had been implemented for twenty years and underlined that one country had further extended the application of its scheme for another ten-year period. Therefore, the Committee might wish to consider the usefulness of undertaking in future an examination of possible ways to improve its work in discharging the responsibility of reviewing the operation of the GSP in accordance with its mandate. Delegations would also be free to refer under this agenda item to any other matters concerning regional arrangements or recent trade policy measures of relevance to the operation of Part IV and to the Enabling Clause.

37. Referring to the Generalized System of Preferences, several representatives welcomed the extension by ten years of an improved GSP scheme by Japan as well as the enlargement of the lists of the GSP beneficiaries of Austria and the United States. The hope was expressed that other industrialized countries would also renew their respective GSP schemes. Several representatives expressed concern over the conditions underlying the granting of the GSP treatment by one major trading partner. These conditions related to non-economic factors such as workers' rights, protection of intellectual property rights, human rights, and allowance for compensation for nationalization of properties. One representative stated that the preferential margins under the GSP schemes were not

sufficient to stimulate the competitiveness of developing countries' exports; the GSP coverage was limited, and the quotas applied to certain products prevented developing countries from optimizing the use of such preferences. Another representative expressed the view that GSP schemes had dynamic effects by encouraging investment in export-oriented industries in developing countries. However, these schemes could still be improved by expanding product coverage, deepening preferential tariff margins, reducing or eliminating non-tariff measures, simplifying and harmonizing the rules of origin, and using safeguard actions and the escape clause only under exceptional circumstances on a temporary basis and subject to prior consultation with potentially affected countries. The basic principles of non-discrimination and non-reciprocity underlying GSP schemes should also be reaffirmed and fully complied with. One representative stated that these schemes should be applied on the basis of a multilateral commitment. Several representatives suggested that GSP schemes be reviewed after the Uruguay Round as preferential margins would certainly be eroded as a result of market access negotiations.

38. With reference to the GSP notification by the United States (L/5153/Add.14), the representative of Peru indicated that as a result of the nationalization of a property previously owned by an American firm, his Government was negotiating compensation and therefore the status of Peru as a GSP beneficiary of the US scheme should not be reviewed. As to the GSP scheme of Poland, he regretted that due to a statistical error, the preferential scheme of Poland did not apply to his country. The representative of Poland acknowledged the point made by the representative of Peru and stated that Polish GSP treatment would be extended to his country as soon as possible.

39. The representative of Australia recalled that her country had been the first nation to introduce a system of tariff preferences for developing countries. At the end of the current scheme, developing countries were receiving a five point reduction of the general duty as tariff preferences on all imports including sensitive items such as textiles, clothing and footwear. In 1990, 60 per cent of imports from developing countries had entered Australia duty-free. From 1992, tariff duties applied to products originating from developing countries would not be higher than 10 per cent, with the exception of textiles, clothing, footwear and passenger motor vehicles. By mid-1996, with the exception of Singapore, Hong Kong, Taiwan and the Republic of Korea, imports from all developing countries, except for the above-mentioned products, would enter duty-free.

40. The representative of Hungary stated that since the last Session of the Committee, the GSP scheme of Hungary had been improved in terms of tariff rates, product coverage and list of beneficiaries. The implementation of the Harmonized System Nomenclature since January 1991 had not affected the product coverage or the preferential tariff duties applied to those products.

41. Speaking also on behalf of other members of the Andean Group which were contracting parties to the GATT (Bolivia, Colombia and Peru), the representative of Venezuela introduced a communication (document L/6841) on the activities carried out by the Andean Group under the Cartagena Agreement since its last report submitted to the Committee in October 1990. Any request for additional information in relation to this Agreement would be transmitted to the Board of the Cartagena Agreement and the responses would be given at the next meeting of the Committee. This communication had been made in pursuance of the notification procedures which had been adopted. Referring to the previous report of the Andean Group to the Committee (L/6737), one representative expressed appreciation for the information provided in fulfilment of the GATT obligations under Article XXIV and for the commitment of the members of the Andean Group to broaden trade and investment liberalization. The report covered the period through July 1990. It was her delegation's understanding that the Andean Group members had agreed to implement trade liberalization measures at a pace more rapid than indicated in the report. Any new information including time schedules with respect to the elimination of tariffs among members, the removal of non-tariff measures, and the introduction of a common external tariff would be welcomed. Given the accelerated process of trade liberalization measures agreed by Andean Group members, full consultations in 1991 would seem premature. In order to evaluate the need for conducting substantive consultations on the Cartagena Agreement trade regime, a report in early 1992 would be welcomed.

42. The representative of Brazil, speaking also on behalf of Argentina, Paraguay and Uruguay, introduced the Southern Cone Market Treaty (MERCOSUR) defining the rules for the establishment by 31 December 1994 of a common market among the four countries. This treaty, which had been signed on 26 March 1991, was not yet implemented and was subject to ratification by the respective governments. Its objectives were to improve competitiveness of the four economies, stimulate trade flows, allow large-scale economies and greater use of comparative advantages, create better conditions for foreign investments, and improve living standards. The treaty established the different stages to be achieved to ensure the free circulation of goods, services and production factors among member countries. The elimination of all tariff barriers among member countries would be implemented gradually and would be effective by 31 December 1995. The External Common Tariff would come into effect by December 1994. The harmonization of national policies on transportation, technical standards, trade, industry, agriculture and foreign exchange would have to be achieved by 31 December 1994. The treaty would be opened to accession to all ALADI members five years after its entry into force. As soon as this treaty comes into force, the signatory countries will make the appropriate notification in conformity with GATT provisions. Some representatives welcomed the development concerning the MERCOSUR common market. One delegation encouraged the member countries to notify it promptly to the GATT as this treaty was important for the development of the MERCOSUR community and in the context of the international trading system. Another representative reiterated his delegation's position that it was for the CONTRACTING PARTIES to decide under which provisions this treaty should be examined.

43. Referring to the Global System of Trade Preferences Among Developing Countries (GSTP), one representative requested clarification on the identity of countries which had ratified the Agreement after the first notification submitted to the Committee, the operational status of the GSTP agreement, the trade flows generated by the GSTP agreement, the conditions to fulfil to benefit from GSTP treatment, the validity of the preferences, the mode of concession exchanges, and the understanding of the term "consolidation" with reference to the GSTP schedules of concessions. The representative hoped to receive the information before the next meeting.

44. The representative of Yugoslavia, which is the repository country of the GSTP Agreement, informed the Committee that this Agreement, which came into force on 19 April 1989, had so far been ratified by thirty-seven countries out of which twenty-eight were contracting parties to the GATT (Argentina, Bangladesh, Bolivia, Brazil, Chile, Cuba, Egypt, Ghana, Guyana, India, Indonesia, Malaysia, Mexico, Morocco, Nicaragua, Nigeria, Pakistan, Peru, Republic of Korea, Romania, Singapore, Sri Lanka, Thailand, Trinidad and Tobago, Tunisia, Tanzania, Yugoslavia, and Zimbabwe).

45. Several representatives expressed concern over the increase in selective internal taxes applied by Italy on coffee, cocoa and products thereof as from 1 January 1991. The ad-valorem incidence of these selective internal taxes corresponded to 61.5 per cent for unroasted coffee, 65.5 per cent for instant coffee, 58.5 per cent for cocoa beans and 444.5 per cent for cocoa husks and residues. Such taxes were discouraging the domestic consumption of these products and thus were contrary to the provisions of Article XXXVII:1(c) of the General Agreement and violated the standstill commitments of the Punta del Este Ministerial Declaration. These measures had been duly notified to the Surveillance Body. It was also recalled that coffee and cocoa were mainly produced by developing countries; if these fiscal taxes were still levied, this would be prejudicial to their coffee and cocoa industries and would have a strong negative impact on their export revenues. Several representatives reserved the right to revert to this matter in the appropriate GATT forum in order to ensure adequate protection of their rights under the General Agreement.

46. Responding to the statements made, the representative of the EEC underlined that the measures adopted by Italy did not represent new internal taxes but adjustments of existing taxes in order to take into account the evolution of consumer prices in Italy. The adjustments corresponded to only half of these products' consumer price indexes. Their implementation had been postponed by Italy until January 1991. The selective taxes on coffee and cocoa had not been adjusted since 1973 and 1970 respectively. Although, in principle, internal fiscal measures could have a trade impact, their real effect was determined by the demand elasticity of the products. The consumption price elasticities of coffee and cocoa were practically negligible in the EEC member countries, and despite the selective taxes in certain member states, the per capita consumption of these products was one of the highest. The representative reiterated the willingness expressed by his delegation in the tropical products negotiations to negotiate the elimination of these selective taxes if it was proven that they had trade effects.

47. One representative underlined that in the context of the Uruguay Round negotiations, these measures would offset the tariff reductions that were being negotiated. Another representative stressed that these measures unduly strengthened the negotiating position of Italy and urged the government of Italy and the EEC to re-examine the measures in keeping with the objective of trade liberalization, especially for tropical products, as agreed at the launching of the Round. One representative also said that, according to his sources of information, the increase of selective taxes on coffee and cocoa had been implemented in order to compensate the loss of revenue due to a VAT reduction on shoes.

48. Another representative referred to the delayed implementation or non-implementation of panel reports. This was a fundamental issue since such situations affected the credibility of the GATT system. Moreover, the issue was of particular importance and relevance to developing countries. Delays in the adoption of panel reports or in the implementation of their recommendations, as well as linkages established in certain cases between the implementation of recommendations and results of the Uruguay Round, constituted a handicap for developing countries in defending their interests before the main industrialized countries. Without having any particular case in mind, the representative wanted to draw the attention of the Committee to this problem and requested its Chairperson to convey to the Chairman of the Council, who was undertaking consultations on this matter, the concerns of developing countries and their interest to take part in the consultations. This suggestion was supported by some other representatives.

49. Several representatives underlined that the Committee should become more effective in reviewing the implementation of Part IV and of the Enabling Clause which was one of its main tasks. One representative recalled that Part IV and the Enabling Clause had been adopted in order to make the General Agreement more responsive to the special situation of developing countries. The principle of special and more favourable treatment for those countries was also reflected in the Punta del Este Declaration. For the Round and for the GATT to succeed in promoting an increased participation of developing countries in the international trade, as well as in facilitating the attainment of their development objectives, full respect of the features of that principle was essential. Several representatives deplored that little attention had been paid to these principles by developed contracting parties. The GSP schemes were, however, one of the few examples of the application of the Enabling Clause and despite their limits were of great importance to developing countries. One representative proposed that the Secretariat examine the possible ways and means of improving the work of the Committee in reviewing the operation of the GSP.

50. The Committee took note of the notifications, statements and comments made. It was agreed that the Chairperson convey to the Chairman of the Council the concern of developing countries in regard to delayed implementation or non-implementation of the panel reports and their request to participate in the informal consultations which were being held on this matter. The Chairperson also said that the suggestion concerning a factual note on the GSP, to be prepared by the Secretariat, required further informal consultations and that the Committee would revert to this matter at a future meeting.

Item (iii): Technical assistance to developing countries in the context of the Uruguay Round.

51. The Chairperson recalled that the Committee had periodically reviewed the technical assistance provided by GATT to developing countries in the context of the ongoing multilateral trade negotiations. The last such review had been undertaken by the Committee at its Sixty-Ninth Session in October 1990. For the purpose of that review the Secretariat circulated a note outlining the GATT technical assistance activities since the commencement of the Round (COM.TD/W/483). For the present Session, the Secretariat had prepared a note containing further details on technical assistance activities provided since the beginning of the Round up until now, as well as on training activities (COM.TD/W/488 and Corr.1). It was also recalled that, as agreed by the Committee at its Sixty-Third Session in April 1988, governments and international organizations which provided technical assistance to developing countries in relation to work in the Uruguay Round were invited to keep the Committee periodically informed on activities which they had carried out as well as of facilities which were available under their programmes.

52. The Chairperson further said that with regard to the GATT technical programme two aspects might warrant the Committee's examination:

(i) the technical assistance needs of developing countries during the present stage of the Uruguay Round negotiations and;

(ii) the future technical assistance programme of the GATT. In this respect, it was recalled that in previous Committee discussions many delegations emphasized the need for strengthening and increasing the effectiveness of the GATT technical assistance programme. It seemed to her that in order to achieve this objective it would be useful to initiate a process of identifying long-term requirements of developing countries and to define appropriate ways and means to ensure that the future technical assistance programme of the GATT would adequately meet those requirements. She suggested that a first stage of this process could consist in holding informal consultations with delegations and the Secretariat in order to prepare a more structured discussion on this issue at a future meeting of the Committee.

53. Many developing-country representatives expressed appreciation for the technical assistance provided by the GATT, including through trade policy courses as well as for contributions made by individual governments. Several speakers emphasized the level of technical expertise of staff members involved in such activities and the valuable contributions made by the Technical Cooperation Division in helping developing countries to improve their participation in the Uruguay Round. Appreciation was also expressed for the technical assistance provided by UNCTAD and other international organizations such as the IMF, the World Bank and UNDP. Hope was expressed that technical assistance activities by GATT and other international organizations would be intensified in the present stage of the multilateral negotiations.

54. Some representatives expressed appreciation for the assistance received from GATT in the process of their accessions or in negotiations for resuming GATT membership. Another representative pointed out the interest of his country to acceed to GATT and to benefit to this end from the Secretariat's technical assistance.

55. A number of developing-country delegations reiterated the view that the GATT technical cooperation programme should be expanded and strengthened after the end of the Uruguay Round. A major objective of future technical assistance should be to help developing countries in implementing the results of the Round and to assist them in taking full advantage of those results. In this connection it was felt that the suggestion made by the Chairperson on initiating informal consultations on future technical assistance of the GATT was useful.

56. The representative of UNCTAD informed the Committee that the UNDP, which was the funding agency for the comprehensive UNCTAD programme of technical cooperation for the Uruguay Round had, in the light of the Round not having been concluded at the Brussels TNC meeting in December 1990, agreed to continue to provide technical assistance to developing countries, on request, during the final and critical phase of the Uruguay Round, and to identify the evolving technical cooperation needs of developing countries for the purposes of the Fifth Programming Cycle of the UNDP. Given the likely acceleration of the negotiating process in the coming weeks and months, technical cooperation efforts would be more sharply focused on providing assistance on a continuous and evolving basis in Geneva. Further details of activities carried out thus far, and tentatively scheduled for the near future, would be provided in a separate document.

57. The Committee took note of the statements and comments made. With regard to the future technical assistance of the GATT it was agreed that informal consultations be held by the Chairperson with delegations and the Secretariat with a view to preparing a more structured discussion on this subject at the Committee's next meeting.

Item (iv): Work of the Sub-Committee on the Trade of Least Developed Countries

58. The Chairperson recalled that in accordance with the mandate given by the Committee, the Sub-Committee on Trade of Least-Developed Countries was keeping under continuous review issues in the Uruguay Round of particular interest to the least-developed countries. Since the Sixty-Ninth Session of the Committee on 12 and 16 October 1990, the Sub-Committee met on 31 October 1990. The note on the proceedings of that meeting was circulated in document COM.TD/LLDC/13.

59. The Committee reappointed Ambassador Erik Selmer (Norway) as Chairman of the Sub-Committee for 1991. The Chairman of the Sub-Committee on the Trade of Least-Developed Countries referred to document COM.TD/LLDC/13 and recalled that the representative of Bangladesh on behalf of least-developed countries, had expressed appreciation on the general understanding of the particular situation and problems of the

least-developed countries in various negotiating groups of the Uruguay Round. He added that in a number of the negotiating groups, although some of the concerns of the least-developed countries had been taken into account, this had not been done to the full extent desired. The Chairman of the Sub-Committee also recalled that a number of proposals had been put forward by Bangladesh on behalf of least-developed countries and had been submitted to the TNC in November 1990. These proposals, which were in the form of a Draft Decision to be adopted by the CONTRACTING PARTIES as part of the overall Uruguay Round package, were still under consideration. He expected that in the weeks and months to come, the thoughts and proposed undertakings contained in the Draft Decision would be channelled into the reorganized negotiating structure of the Uruguay Round.

Other matters

60. In the light of the discussions at the present Session, the Chairperson referred to the question of the future rôle of the Committee after the Uruguay Round. She felt that many delegations were of the view that whatever the final results of the Uruguay Round, the rôle of the Committee on Trade and Development should be strengthened in the future. Developing countries were increasing their participation in the GATT system and more attention would have to be paid to their problems and issues of particular interest to them. The Chairperson suggested that further informal consultations be held with a view to identifying issues which would appear to merit further consideration by the Committee in the light of its future rôle. She also recalled that during the last Council meeting, the Director-General stressed the important rôle of the Committee on Trade and Development within the GATT system and further added that any work of this Committee should be dealt with in the most integrated and coherent manner possible to bring development issues and the special needs of developing countries into the mainstream of GATT activities through a much closer interaction between the Committee on Trade and Development, the Council and the CONTRACTING PARTIES, and the Trade Negotiations Committee of the Uruguay Round.

61. The Chairperson proposed that in the informal consultations to be held on the future rôle of the Committee, the following topics mentioned by delegations in the discussion at the present Session be covered among others: credit and recognition, trade and finance link, consequences of the various regional integrating schemes on world trade and in particular on developing countries, and the future technical assistance activities of the GATT. Such informal consultations would be without any commitment to participants. On the question of credit and recognition, further consideration of this topic in the Committee would be without prejudice to the work undertaken in the negotiating bodies of the Uruguay Round and any conclusion reached in this Committee would be made available to relevant Uruguay Round bodies. Delegations would also be free to raise any other subjects which they considered relevant to the future work of the Committee.

62. The Chairperson also stated that in order to ensure that the trade issues of particular interest to least-developed countries were adequately dealt with and their problems received special attention, the Sub-Committee on the Trade of Least-Developed Countries should intensify its work and continue to make suggestions and proposals on how best to address the problems of those countries in relevant GATT bodies, including in the Committee on Trade and Development.

Next meeting of the Committee

63. The Chairperson proposed that the next meeting of the Committee be tentatively scheduled for 22-23 and 28 October 1991 and that the final date be determined by the Chairperson in consultation with delegations and the Secretariat.