

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Consultative Group of Eighteen
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ANNOTATED PROVISIONAL AGENDA

It is suggested that, at its first meeting, the Consultative Group may address itself to the following:

1. Organizational matters.
2. A review of the experience of the CONTRACTING PARTIES in dealing with trade measures taken for balance-of-payments purposes with a view to examining possible changes in the internationally agreed scope for trade measures for balance-of-payments purposes and for improvements in procedures for consultation and co-operative action with respect to such measures, including co-ordination with the IMF.
3. A review of the current situation in international trade and of recent trade policy developments with a view to initiating an exchange of views on:
 - (i) The contribution that the CONTRACTING PARTIES might make to encourage the pursuit of policies consistent with the purposes and objectives of the General Agreement and to the alleviation of current and foreseen problems in the field of trade;
 - (ii) The continuing rôle of the GATT in fostering and regulating trade relations between member governments.

Agenda Item 1. It is suggested that under Item 1 the Consultative Group might wish to agree on such organizational matters as the nomination of the Chairman, representation by member governments, attendance of contracting parties other than member governments, presence of observers from other international organizations, circulation of agenda, maintenance of records and reports of meetings, etc.

Agenda Items 2 and 3

The suggestions under Items 2 and 3 have been made with the objective of enabling members of the Consultative Group to address themselves to certain areas of concern to the CONTRACTING PARTIES. In the light of its

initial exchange of views on these topics, the Group might wish to select certain aspects of the matters mentioned under these items for more detailed consideration and also agree upon suitable arrangements for the further discussion of these matters.

Agenda Item 2. It is also suggested that the Group could take as a basis for its discussion on Item 2 above, the Note by the Balance-of-Payments Committee, reviewing the work of the Committee over the period 1970-1974 (L/4200 - 18 July 1975). The Group might in particular wish to address itself to the points listed on pages 1 and 2 of the Committee's Note, having regard to the changes that have taken place in the monetary system. In this connexion, it might also want to take note of existing provisions and procedures for GATT-IMF co-operation in dealing with trade measures to meet balance-of-payments problems, keeping in mind the conclusions of the IMF Committee of 20 which specified the need to make "arrangements for continuing close co-ordination between Fund and GATT". The existing provisions for IMF-GATT co-operation are described in Section II, pages 5 to 8 of document L/4200.¹ In the final report by the Committee of 20 to the IMF Board of Governors¹ the Committee presents an Outline of Reform, paragraph 14 of which reads as follows: "There will be a strong presumption against the use of controls on current account transactions or payments for balance-of-payments purposes. In this connexion arrangements will be made for continuing close co-ordination between the Fund and the GATT."

Agenda Item 3. Recent developments in the international economy and short-term prospects have been extensively reviewed at meetings in other institutional fora. The discussions of the Consultative Group under Item 3 should therefore be concentrated on aspects of the Group's terms of reference which require it to follow international trade developments with a view to the pursuit and maintenance of policies consistent with the objectives and principles of the General Agreement. A draft summary of discussions in the GATT Council on certain recent trade policy developments and on various emergency actions and temporary import restrictive measures introduced by governments is to be found in Sections 4 and 5 of the Draft Report of the Council to the CONTRACTING PARTIES (C/W/264, 16 October 1975). Attached is a note prepared by the secretariat summarizing recent developments in trade with particular reference to changes in trade positions and balance-of-payments developments. With the assistance of this material the Group might wish to exchange views on all aspects of policy measures which bear on the competence and responsibilities of the CONTRACTING PARTIES.

¹ See Report to Board of Governors by Committee of 20, 14 June 1974.

In addition, the Group might also find it timely and appropriate to initiate an exchange of views aimed at elucidating the rôle that the GATT could be expected to play in regulating trade relations between contracting parties and in promoting the effective functioning of the international trading system, having regard to discussion on international trade and economic relations in other international fora, including Resolution 3362 and discussions at the Seventh Special Session of the General Assembly.

In reviewing the rôle of the CONTRACTING PARTIES in relation to both current and long-term developments, the Consultative Group may wish to give particular attention to effective application and improvement of existing instrumentalities of the GATT, including the provisions of Part IV.

ANNEX

RECENT TRENDS IN WORLD TRADE

The deepest recession which the industrial countries have experienced in the post-war period appears to have already passed its lowest point, though clear signs of a recovery in economic activity are not yet evident in Europe. In the United States both GNP and industrial production turned upwards in the second quarter and they were expected to have recovered further during the third quarter. In Japan there was also an upturn in GNP and industrial production during the second quarter, though industrial production suffered a slight setback in July and August. Indicators of economic activity in Europe suggest that a further decline occurred in the second quarter of the year. Although there were hardly any signs of recovery in the third quarter, the necessary climate for a reversal of the decline later in the year appears to exist in a number of countries. However, the persistent lack of confidence on the part of both consumers and industrialists not only in Europe, but also in the other industrial countries, leaves a large degree of uncertainty concerning the speed at which the resumption of growth is likely to progress. In the developing countries, where the downturn in economic activity occurred later, there are as yet no signs of a recovery.

In industrial countries the rate of increase of consumer prices slowed down from about 14 per cent in the last quarter of 1974 (year-to-year) to 10½ per cent in July-August of 1975. The rate of inflation of manufactured goods slowed down more markedly than that of foodstuffs. In the developing countries, although the rate of inflation of consumer prices (at 30 per cent) was more than double that of industrial areas in the last quarter of 1974, the easing of inflationary pressure in 1975 was only moderate and in May-June consumer prices were still rising by more than 25 per cent.

The decline in the volume of world exports, which had begun in the second half of 1974, became more pronounced in the first half of 1975, when it is estimated to have fallen by roughly 10 per cent from the corresponding period of 1974.

Industrial countries

(i) Movements in the volume and prices of foreign trade

In most industrial countries the decline in the volume of foreign trade initiated in the second half of 1974 continued at a faster rate in the early months of 1975. The fall in the rate of importing was much sharper than the decline in exports which had been temporarily cushioned by the sustained import demand of developing countries and the Eastern trading area. Whereas over the longer term and in the preceding boom period, trade has increased faster than

production, between mid-1974 and mid-1975 the fall in foreign trade, especially in the case of imports, by far exceeded the fall of both GNP and industrial production. In some of those industrial countries for which data are available for more recent months, the volume of imports and/or exports appears, however, to have levelled off, and in some cases to have shown some slight growth.

Export unit values from industrial countries as a whole increased at a slower rate during the first quarter of 1975, and flattened off in the second quarter. The rise in the import unit values of industrial countries was also checked during the second quarter of 1975. Between the first half of 1974 and the first half of 1975 the increase in the unit values of industrial countries' imports was slightly less rapid than that of their exports.

(ii) Trade account and balance-of-payments developments

For the industrial countries as a whole, the dollar value of exports in the second half of 1974 was only 10 per cent higher than in the preceding semester, representing a considerable slackening in the rate of exporting. In the first half of 1975 exports were a mere 3 per cent higher than in the preceding half-year. At the same time the value of imports grew by less than 10 per cent in the second half of 1974, and declined slightly in the first half of 1975. Consequently the aggregate import surplus (c.i.f.-f.o.b.) of the industrial countries declined by \$5 billion during the second half of 1974, and fell even more sharply, by some \$12 billion, in the first half of 1975, when it stood at roughly \$5 billion.

This improvement in the trade position of the industrial countries was almost entirely due to a shift in their trade account with the developing world. Their import surplus with the oil-exporting developing countries declined by about \$9 billion between the first half of 1974 and the first half of 1975, to about \$22 billion, while the export surplus with non-oil developing countries increased by about \$8 billion, to \$12 billion, between the first half of 1974 and the corresponding period of 1975, due mainly to the decline in the value of imports from these countries.

Between the first and second halves of 1974 the United States trade balance had deteriorated by about \$5 billion, with imports growing three times as fast as exports. The situation altered radically in the first half of 1975, when the improvement over the preceding semester was of the order of \$10 billion. The improvement between the first half of 1974 and the second half of 1975, of \$5 billion, was divided evenly between the United States trade accounts with the other industrial countries on the one hand and the developing countries on the other.

The trade balance of the EEC improved by almost \$11 billion between the first half of 1974 and the first half of 1975 as the growth of imports slowed down much more sharply than export growth. There was a reduction of \$2 billion in the trade deficit with developing countries between the first and second halves of 1974 and a further reduction of \$9 billion in the subsequent half year. The trade surplus with other industrial countries, which had increased by almost \$1 billion in the second half of 1974, fell by some \$3 billion in the first half of 1975.

In the first half of 1975 most EEC member countries substantially reduced their individual trade deficits, which in the case of the United Kingdom still exceeded \$5 billion. In the Federal Republic of Germany, however, the export surplus declined somewhat, to \$8.7 billion, in the first six months of 1975.

In Japan proximate balance in the trade account was recorded in the second half of 1974, following a deficit of \$6.7 billion in the first half. Resulting entirely from a decline in the trade surplus with other industrial countries, Japan's trade account moved back into deficit in the first half of 1975 when imports exceeded exports by nearly \$2 billion.

The trade balances of Canada, Finland and Norway deteriorated somewhat during the first half of 1975. With the exception of Switzerland, whose trade balance showed some improvement, the other industrial countries recorded no significant changes in their trade balances.

Mainly as a result of the marked improvement in the balance of trade, the current account deficit of industrial countries as a whole had already declined during the second half of 1974. There was a more substantial improvement during the first half of 1975. Available indications on the capital account for some countries show an increased outflow of capital during the first half of 1975.

Developing countries

After two years of sustained growth boosted by the increase in oil prices during the first quarter of 1974, developing countries' export earnings have been increasingly affected by the recession in industrial countries since mid-1974. For developing countries as a whole (including oil-exporters) the value of exports showed hardly any increase in the second half of 1974 (as compared to the preceding six months) and actually declined during the first half of 1975. The growth of imports into developing countries, though still relatively rapid in the second half of 1974, reflecting essentially the high earnings during the commodity boom, appears to have slowed down drastically in value, in the first half of 1975, when in volume terms imports probably declined. This resulted in a reduction of

developing countries' overall trade surplus from the unprecedented level, of more than \$40 billion (f.o.b.-c.i.f.), reached in the first half of 1974, to less than \$30 billion in the second half of the year and to roughly \$15 billion in the first half of 1975.

These developments for developing countries as a whole conceal however significant divergencies between the oil-exporting and the oil-importing developing countries. The combined trade deficit of oil-importing developing countries increased from \$10 billion in 1973 to roughly \$20 billion (at annual rate) in the first half of 1974 and \$40 billion in the second half of 1974. In the first half of 1975 the deficit widened further. Since the beginning of 1975, however, while export earnings have been declining sharply additional means of import financing have become increasingly hard to obtain. This may be expected to reflect itself in a sharp reduction in both the volume and value of their imports during 1975.