

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Consultative Group of Eighteen  
Second Meeting  
24-25 February 1976

NOTE ON THE SECOND MEETING OF THE CONSULTATIVE GROUP  
OF EIGHTEEN: 24-25 FEBRUARY 1976

Introduction

1. The Consultative Group of Eighteen held its second meeting on 24-25 February 1976. An annotated provisional agenda was circulated in document CG.18/W/2 and a list of participants in document CG.18/INF/2.

Agenda

2. The Group adopted the following agenda:

- (1) Organizational matters;
- (2) Recent developments in trade policy and international trade;
- (3) Trade measures taken for balance-of-payments purposes;
- (4) The international trading system and the rôle of GATT;
- (5) Other business.

Organizational matters

3. The Group took note of and confirmed the decisions taken at its first meeting on organizational matters as recorded in paragraphs 4 to 9 inclusive of document CG.18/1.

Recent developments in trade policy and international trade

4. The purpose of this item was to enable members of the Group to raise specific points of interest or concern relative to recent developments in trade policy and international trade. As background material the Group had before it a note by the secretariat on recent developments in world trade (document CG.18/W/3) and a first assessment by the secretariat of international trade in 1975 and present prospects (Press Release - GATT/1174).

5. In response to concerns expressed at recent recommendations of the United States International Trade Commission on speciality steels and footwear, the member for the United States explained that the decision-making process itself lay with the Executive, and that although certain presidential decisions were subject to over-ride in Congress, the United States would do its utmost to keep world trade open and expanding and would consult fully with interested parties.

6. Some representatives expressed serious concern at trade-restrictive measures which had recently been taken, or which might be taken, in the footwear and textiles sectors. In one case restrictions on textiles not covered by bilateral agreement, and which should have been removed in accordance with the Multifibre Arrangement, continued to be maintained under so-called phase-out programmes. In another case new import barriers were imposed on handloom products including restrictions on products excluded from the purview of the Multifibre Arrangement.

7. Some representatives stated that definite evidence of the beginnings of a general recovery in their economies had recently emerged which, thus far, was more pronounced than had been anticipated. This development was reflected in unemployment levels which in some instances had peaked-out or had even declined. It was noted, however, that to some extent the recovery which now appeared to be under way was the result of the somewhat artificial stimulus of public expenditure programmes and that it was as yet uncertain how consumer spending and investment would respond in the face of continued relatively high rates of inflation and levels of stocks. It was generally observed that although the worst phase of the crisis appeared to be receding, there was an even greater need for governments to vigorously confront protectionist pressures since it was in the recovery phase of the cycle, when industries sought to consolidate and improve their competitive positions, that such pressures tended to be particularly strong.

8. Some members said that the developing countries, and in particular the most seriously affected amongst them, continued to face the prospect of recurrent massive trade deficits, necessitating further resort to heavy external borrowing in order to finance essential development needs. The problems of external debt, monetary instability, inflation and the structure of international prices could not be dealt with adequately by the General Agreement in its present form, or as currently interpreted and applied. It was suggested that while these were not new problems, a dialogue in the Consultative Group of Eighteen would enable progress to be made in these areas within GATT, and might usefully contribute to the work going on in other international fora.

9. The representative of Egypt, in a statement circulated to the Group as document CG.18/W/6 and supported by some other members, suggested that the Consultative Group of Eighteen should recommend to the Council that it should study the ways and means, and take action to adopt an emergency programme to provide emergency relief to the developing countries in general and to the most seriously affected among them in particular.
10. Some other representatives said that they were prepared to explore ways of alleviating the difficult situation of developing countries. Many of the problems raised and the ideas put forward were under discussion in the various MTN bodies and were already being negotiated. For example, offers on tropical products would soon be tabled, and differential treatment in relation to subjects of particular interest and importance to the developing countries was being negotiated. Some of the problems raised might best be dealt with through normal bilateral consultations but it would not be practical, outside of the context of the MTN, to pursue a global commitment in respect of matters which can more appropriately and effectively be dealt with in that context.
11. Some representatives noted that the polarization of international discussions on trade issues between rich and poor countries tended to obscure the position of the small industrialized countries. The flexibility of these countries in adjusting to even modest disturbances in the international economy was limited by such factors as the structure of their industries, their heavy dependence on foreign trade and the limited import capacity of their markets. In these respects there were some similarities between the developing countries and the small industrialized countries. Safeguards against disturbances were therefore particularly important to the small industrialized nations both in respect of their exports and their imports. It was suggested that the Group could appropriately consider at some stage the relative vulnerability of the economies of the small industrialized nations to external disturbances, and that this vulnerability was particularly relevant to its discussions on uniformity in the procedures and criteria applying to countries experiencing balance-of-payments problems.

Trade measures taken for balance-of-payments purposes

12. As background material the Group had before it the Note by the Balance-of-Payments Committee reviewing the work of the Committee over the period 1970-1974 (document L/4200) and a Background Paper for Discussion of GATT Rules and Procedures Governing Trade Measures for Balance-of-Payments Purposes (document CG.18/W/5) which had been circulated to the Group at the request of the member for the United States.

13. The member for the United States said that there were three basic issues which needed to be discussed in the context of the improvement or reform of the GATT rules and procedures governing trade measures for balance-of-payments purposes. One issue was possible short-term improvements in current procedures. A second issue concerned the basic terms of reference of the Balance-of-Payments Committee. The third basic issue concerned the reform of Articles XII and XVIII and possibly other relevant articles as well. The question of short-term improvements in current procedures appeared to be a subject which could be acted upon fairly quickly whereas the second and third issues would probably need to be dealt with in a somewhat longer perspective.

14. Seven procedural improvements were put forward as a suggested basis for short-term action in this area:

- (i) the Balance-of-Payments Committee in dealing with trade restrictions, whatever its terms of reference, should fully appraise the trade impact of balance-of-payments actions that are taken, and examine whether alternative less trade distorting measures might not be possible;
- (ii) the GATT secretariat should prepare objective trade-policy-oriented studies on the measures taken;
- (iii) the Committee's evaluation of actions taken by developing countries should take account of the special needs of those countries;
- (iv) the Committee ought to examine as part of its in-depth analysis, not only the specific action taken by an individual country with respect to its own balance-of-payments problems but also the implications of actions taken by other countries that may have precipitated the specific action in question;
- (v) the Committee should report its conclusions and discuss them narratively so as to build up a body of commentary that could facilitate the development of guidelines governing future trade actions for balance-of-payments purposes;
- (vi) the Committee's surveillance rôle should be enhanced to enable it to follow up and review actions that are taken in the light of the Committee's recommendation or conclusions; and
- (vii) the relationship between the GATT and the IMF secretariats ought to be developed through procedures for improved co-ordination and exchange of information.

15. Some representatives, commenting on document CG.18/W/5 generally, stated that there was a lack of symmetry in the existing provisions of the General Agreement relating to trade measures taken for balance-of-payments purposes which the proposed procedural improvements did little to resolve. In the first place balance-of-payments related trade restrictions were only one, and not necessarily the most important, of a wide range of barriers encountered by developing countries in their attempts to expand their trade. Secondly, it was inappropriate that the General Agreement should sanction restrictions which enabled certain countries to seek to solve their balance-of-payments problems at the expense of, and by putting a brake on, the trade of developing countries. In this connexion, they also noted the absence of rules which require countries whose balance-of-payments were in surplus to eliminate or relax restrictions which were often inconsistent with the GATT generally. Thirdly, a procedure which involved a presumption of guilt on the part of the country taking measures to protect its balance of payments was not only inappropriate but of very little relevance in the case of developing countries and failed to take account of the fact that there was a difference in character and not just in degree between the balance-of-payments problems of the developing and the developed countries. The structural nature of the balance-of-payments problems of developing countries derived from the development process itself and was one aspect only of the wider problems of the balance of trade of these countries. Accordingly, an approach which sought first to improve the procedures of the Balance-of-Payments Committee or to amend its terms of reference would be unsatisfactory without a consensus first having been established with regard to (a) the basic criteria to be applied by the Committee, including differential criteria not only for developing countries but also for other countries whose peculiar position might warrant specific consideration and (b) the objectives of the exercise in terms of the co-operation GATT can give to countries in balance-of-payments difficulties, and in particular in respect of the structural balance-of-payments problems of the developing countries. In this regard it was suggested that the scope of the proposed secretariat studies could be wider than simply seeking to identify the least trade distorting measures. Such studies should also encompass a thorough study of the economic factors behind the measures adopted, including in particular an analysis of trends in the balance of trade and its rôle in the evolution of the balance-of-payments position of the country concerned.

16. It was also suggested that short-term procedural improvements should not be dealt with in a manner which might prejudice the position with respect to the longer-term issues of substance, since the view could be taken that the principle embodied in Article XII was of doubtful utility from the standpoint of both developed and developing countries. In these circumstances it was possible that the legitimization of trade restrictions along the lines suggested might be counter-

productive. In this general connexion it was noted by several members that countries would continue, for a variety of mainly practical political reasons, to resort to trade measures for balance-of-payments purposes. Accordingly, whether the particular form which the action takes is a quantitative restriction, an import deposit or some other measure, it was desirable that such measures should be subject to effective review in a forum open to all countries with an interest in the measures taken.

17. A number of representatives said that they could agree generally with most of the suggested procedural improvements. In view of the differing views expressed on the substantive issues, they believed it would be appropriate to revert at future meetings of the Group to the question of where and how these issues might be dealt with. It was suggested that the experience gained from the implementation and operation of a number of the suggested procedural improvements could provide useful guidance as to how the more general issues might be dealt with. In this regard, it was considered necessary that, in the first instance, there should be a unified system under which all trade restrictions and trade restrictive measures should be notified and, secondly, that the examination of these measures in terms of the improved procedures as outlined by the member for the United States should be conducted within the existing framework, either in the Balance-of-Payments Committee or in sub-groups established for the purpose on a case-by-case and flexible basis.

18. As regards improvements in the GATT/IMF relationship it was noted that there were important differences as to the nature of the action within the competence of the Fund and the GATT in dealing with trade measures adopted for balance-of-payments purposes. Against the background of the changes that have taken place in the organization of the world monetary system and as a basis for a meaningful dialogue with the IMF, it was suggested that the Group should examine the considerations that ought to be adopted by those responsible for trade policy matters in their approach to trade measures for balance-of-payments purposes and how these considerations might be conveyed to the Fund. It was also suggested that there would be advantages in having a representative of the IMF present at an appropriate stage in the Group's discussions on this topic to provide information on Fund policy and action in this sphere as well as to discuss the possibilities of improving the relationship between the two bodies. It was left to the Chairman to follow up on the suggestion with the Managing Director of the Fund.

19. As a follow-up to the discussions on this subject, the member for the United States indicated that he would be willing to prepare for the next meeting a paper which would present the proposed procedural changes in the form of a draft recommendation of the Group to the GATT Council. This paper, together with

an accompanying background paper discussing the proposed changes, could be circulated to members of the Group within the next thirty days. The member for Argentina said that he would prepare a paper on the problems of substance to which the revised procedures should be adapted.

20. It was agreed that the Group would resume its debate on this subject at the next meeting in order to see what joint conclusions and possible recommendations could be arrived at. The Group welcomed the offer of the papers referred to by the members for the United States and Argentina, and hoped that these papers could be circulated in the near future. It was also agreed that, in order to facilitate reflection on and consideration of the matters to be dealt with by the Group at the next meeting, the secretariat would prepare a check-list of the major issues which had been identified in the discussion.

#### The international trading system and the rôle of GATT

21. The Director-General presented a progress report on developments in, and GATT secretariat action with respect to: the IMF Jamaica meeting; the inter-secretariat United Nations Task Force on the implementation of General Assembly Resolution 3362; the Ad Hoc Committee of the General Assembly on Restructuring of the Economic and Social Sectors of the United Nations System; and the four Commissions of the Paris Conference on International Economic Co-operation.

22. The Group confirmed the general approach adopted by the Director-General in relation to the activities of these various bodies, and endorsed the comprehensive statement (circulated to the Group as document L/4306) made to the Ad Hoc Committee which stressed the distinctive contractual nature of the GATT and the important implications this had both for the relations between the contracting parties and between the GATT and other international institutions. The view was expressed that the Paris Conference on International Economic Co-operation would have a positive impact on the general environment of the MFN and on GATT activities generally and that the relationship between the Paris Conference and the GATT should be one of mutual and reciprocal influence.

#### Proposed "framework group"

23. In the context of the discussion of improvement of GATT procedures and framework, the member for Brazil outlined in greater detail the suggestion, made by the delegation of Brazil at the Trade Negotiations Committee in December 1975, that urgent consideration be given to improving the international framework for the conduct of world trade, particularly with respect to trade between developed and developing countries. The proposal was to establish, possibly at a meeting of the

Trade Negotiations Committee in the summer or autumn of 1976, a "framework group" whose terms of reference would be derived, inter alia, from paragraphs 2 and 9 of the Tokyo Declaration. The establishment of the new group had been supported in the Latin American Meeting in Caracas, by the Ministerial Meeting of the Group of 77 in Manila and by the Group of Nineteen in Paris, and was a proposal of the developing countries as a whole.

24. The member for Brazil stated that the terms of reference of the proposed group were tentative at this stage and open to suggestions. One of its essential purposes would be to seek to negotiate new rules aimed at expanding and improving trade relations between developed and developing countries through differentiated and more favourable measures in favour of the latter. The proposed group would not be intended to interfere with negotiations already under way in the various MTN groups though it could give legal shape, in matters pertaining to completeness, harmony of language and consequential amendments, to the results achieved in other groups. When not concerning itself with inputs from other MTN groups the proposed group could carry out a careful examination of the General Agreement itself identifying issues in specific areas where changes and new ideas are called for.

25. Several members of the Group agreed that a group such as or similar to that proposed could be established at an appropriate time within the Multilateral Trade Negotiations or in some other GATT forum since there was a generally recognized need for reform of the General Agreement.

26. By way of preliminary comment it was noted that governments would have to be quite clear as to the relationship between the proposed group and the existing MTN groups. Moreover, it would be unlikely that the extensive objectives of the proposed group could be realized before the planned 1977 terminal date of the Multilateral Trade Negotiations. If this were to result in an extension of the 1977 terminal date then there would be a corresponding delay in the implementation of negotiated agreements to the disadvantage of the developing countries. If, on the other hand, the 1977 terminal date were to be respected but the reform activities of the group were to extend beyond that date, a situation could be created in which attempts would be made to obtain additional benefits after the negotiations proper were completed and this prospect would tend to disrupt working relationships and the scope of concessions within the negotiations. It was suggested that these considerations indicated that less ambitious objectives for the proposed group might be more manageable. It was noted in this regard that changing one article of a contract such as the General Agreement necessarily put into question other elements or articles of the contract. This could result in a

situation in which matters were raised which were of no direct concern or interest to the developing countries. A further matter for reflection was whether the proposal in its present form would not be prejudicial to the aims of the negotiations as they relate to developing countries for example by isolating them from the mainstream of the negotiations.

27. The member for Brazil undertook to prepare a paper for the further discussion of this subject at the next meeting of the Group which would take account of the comments and suggestions made in the course of the debate.

28. With reference to the proposal made at the first meeting of the Consultative Group by the member for India, that a group of competent persons be appointed to consider the experience of the last twenty years and to make recommendations on the further realization of the objectives and purposes of the General Agreement, the representative of Egypt suggested that, as an interim step in the implementation of this proposal, the Consultative Group of Eighteen could request the Group of Three, which was established in 1971 and was composed of the Chairman of the Contracting Parties, the Chairman of the Council and the Chairman of the Trade and Development Committee, to consider what could be done to improve the rôle of GATT and the General Agreement itself.

29. It was agreed that members of the Group might reflect on this suggestion and on the paper submitted by the member for India (document CG.18/W/4) and that it would be open to the Group, at its next or subsequent meetings, to revert to these matters, and also to the question of the longer-term rôle of GATT with respect to the general question of trade in primary products. Subject to discussions that may be held in the interim, the Group would therefore, at its next meeting, have two principal items on its agenda: the developing countries' proposal for the establishment of a "framework group" and the proposals regarding trade measures taken for balance-of-payments purposes.

#### Other business

30. The Group agreed that a brief press release on the meeting should be issued by the secretariat.

#### Date of next meeting

31. The Consultative Group agreed that it would hold its next meeting on 22-23 June 1976, beginning at 10 a.m. on the 22nd.