

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

CG.18/20
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Special Distribution

Consultative Group of Eighteen
Twentieth Meeting
6-8 October 1982

NOTE OF THE TWENTIETH MEETING OF THE
CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twentieth meeting on 6-8 October 1982. The annotated provisional agenda was circulated in CG.18/W/72 and the list of participants in CG.18/INF/21.

2. The agenda was as follows:

1. Prospects for international trade.
2. Preparations for the session of the CONTRACTING PARTIES at ministerial level and contribution of the CG.18.
3. Other business.

Item 1. Prospects for international trade

3. The Chairman said that the first chapter of the Annual Report, International Trade 1981-82 (GATT/1319), had been circulated to the Group as a background document. Since the chapter had been written the world economic situation had deteriorated. The volume of world exports appeared to have been declining and the number of countries with serious balance of payments or financial problems was growing. It was not proposed that the document be discussed in detail but members might wish to refer to it whenever appropriate.

4. The Group took note of the document.

Item 2. Preparations for the session of the CONTRACTING PARTIES at ministerial level and contribution of the CG.18

5. The Chairman said that the preparations for the Ministerial meeting had reached a critical stage. Decisions taken over the next few weeks would determine whether the Ministerial meeting would make a serious contribution to the re-establishment of order and confidence in world trading relations. In noting that the annual reports of the IMF and the World Bank fully confirmed the analysis by the secretariat as to the nature and acuteness of the problems now besetting the world economy, the Chairman drew attention to the possibility that the Ministerial meeting would take place against the background of a major financial crisis. The Group should

devote attention to the decisions that had to be made if the Ministerial meeting was to be effective. As far as trade relations were concerned, the main problem was the lack of consensus in the following areas: the disciplines governing safeguard action; market access and competition in the agricultural sector; the effectiveness of the dispute settlement mechanism; and trade relations between developed and developing countries.

Statement by the Chairman of the Preparatory Committee

6. Ambassador McPhail reported on the activities of the Preparatory Committee since the Group's last meeting.

Political declaration

7. One member said that a good starting point for reflection on the political declaration to be included in the ministerial text was to consider what would be the consequences of a disappearance of the General Agreement. The GATT provided for most countries the only contractual basis for any right of access to other countries' markets. Even though there had been an erosion of multilateralism, which could lead to a further fragmentation of the GATT system, it was to the GATT's credit that nobody could conceive of carrying out international trade relations on a bilateral basis. The political declaration should be frank and candid on the shortcomings of the trading system and yet inspiring and committing in a political sense.

8. One member said that in his country the trading, industrial and agricultural communities expected clear signals on governments' intentions with respect to the future of international trade relations in crucial sectors. If no consensus could be reached, it might be better to confront realities and issue a ministerial document with split conclusions. In his view, Ministers should take decisive action with regard to protectionism by agreeing on both a standstill on existing protectionist measures and a roll-back in existing levels of protection. Other members of the Group expressed support for the proposal, one of them stating that the roll-back was far more important as the standstill would only perpetuate inequities. He added that the current efforts to restore confidence in the trade system would also help restore stability and confidence in domestic political systems. Some members stressed that the special interests and rights of developing countries would need to be taken into account in the drafting of a standstill and roll-back commitment. One speaker said the exaggerated expectations would lead to disappointment and should be avoided. In-depth negotiations on several important issues had been concluded in 1979 and could not be reopened; what was required now was to search for ways to improve the functioning of GATT.

Parts II and III of the draft ministerial document

9. Several members, referring to the items listed in Parts II and III of the draft ministerial document (PREP.COM/W/26/Rev.1), reiterated comments made in meetings of the Preparatory Committee and the Consultative Group.

The main additional points made at the present meeting of the Group on these issues are summarized below.

Safeguards

10. One member said there was a general reluctance to abandon the m.f.n. principle in the safeguards area. Nevertheless, it had to be recognized that safeguard measures were taken outside GATT. A narrow bilateral consensual arrangement might be envisaged, or perhaps a procedure whereby a party contemplating discriminatory safeguard measures would have to obtain advance approval from a committee and offer compensation for the action contemplated, or recognize the right by the affected party to suspend equivalent concessions. Transparency, objective criteria and close multilateral surveillance would also have to be provided. However, control and review of safeguard measures should in the final instance be the responsibility of the CONTRACTING PARTIES.

11. Other members stated that selectivity even on a consensual basis was unacceptable. Safeguard measures should be temporary, and could be regarded as legitimate only in the event of serious market disruption. One member said that small suppliers unable to disrupt a market should as a rule be exempt from safeguard measures. Some members cautioned against consensual selectivity, pointing to their experience under a Protocol of Accession and the MFA.

Dispute Settlement

12. Some members said that a speedier and more certain procedure for the resolution of disputes was needed. It was also suggested that, in order to improve the adjudication process, arbitration bodies consisting of experts from outside the GATT might be used to render opinions on the legal questions and to make recommendations for the resolution of disputes. The parties to the disputes should abide by these recommendations and have the right to request the intervention of such bodies at any time in the course of the conciliation process. One member also said that contracting parties which had not signed certain MTN Codes should not be precluded from the rights available to signatory contracting parties. Another member suggested caution in any attempts at making GATT into some sort of tribunal.

Relations between developed and developing countries

13. In introducing this subject, the Chairman said that it would be useful to consider the ways in which the Ministerial meeting could contribute to improving trade relations between developed and developing countries. Developing countries had a major interest in strengthening the GATT system in general. Specific subjects of special interest to developing countries, were, inter alia, tropical products; tariff escalation; residual restrictions; the effectiveness of the dispute settlement procedures; the

efficiency, equity and transparency of the safeguard system; better application of the GATT rules in the agricultural sector; a more effective implementation of Part IV, the Enabling Clause, and the provisions on special and differential treatment in the MTN Codes; and the future of the MFA. A further issue which had emerged recently related to the granting of preferences to the more advanced developing countries and the assumption of additional obligations in the trade field by these countries. In the short term, it should be possible to make progress in areas such as tropical products, tariff escalation, non-tariff measures, treatment of least-developed countries, etc. In the medium to long term, certain studies or analyses aimed at identifying ways to improve relations between developing and developed countries in the context of the GATT system might be carried out.

14. Several members noted that developing countries had been most seriously affected by the recession. To satisfy their immediate needs for raw materials and capital goods these countries had had to increase substantially both their foreign debt and their imports originating in developed countries. The proportion of foreign exchange earnings assigned to debt service and essential imports was very high. Unless conditions of access for their exports to the markets of developed countries were improved, the developing countries would continue to face serious difficulties. Thus, adequate and secure access to markets based on the effective operation of the multilateral trading system was essential for them. Unfortunately, at the present time some of the products in which developing countries had a comparative advantage such as agricultural produce, textiles, certain semi-processed and processed goods, were subject to import restrictions in many developed countries - or these countries' domestic policies were such that an increase in the exports of developing countries was not possible. Several members stressed that the Ministerial meeting was the only opportunity in sight for concerted trade action responsive to the needs of developing countries. Ministers should go beyond the reaffirmation of well-known principles and objectives, such as those set up in Part IV of the General Agreement. In addition to recognizing the essential rôle of developing countries in world trade in general and in GATT in particular, the Ministers should agree on specific commitments aimed at responding to their concerns and redressing the depressed conditions of their economies. In this context some members of the Group said that developed countries should facilitate access for developing countries' exports of tropical products, fisheries, forestry products and minerals and metals as well as for the products of those export-oriented industries which developing countries had been encouraged to establish, incurring big capital outlays, a substantial part of which had originated in developed countries.

15. One member explained the proposals which had been circulated in PREP.COM/W/17. In his view, GATT should consider possible rules for carrying out negotiations between developed and developing countries

because stability and security of access to the markets of developed countries for products of interest to developing countries would only result from mutual commitments, not autonomous decisions. One speaker noted that the question of additional obligations by developing countries was closely related to any improvement in the conditions of access for products of export interest to them. In his view the proposals for negotiations leading to binding commitments regarding tariffs and non-tariff measures by developing countries were untimely and politically unacceptable under current economic conditions.

16. Some members added that, notwithstanding balance-of-payments difficulties, developing countries had provided dynamic markets for the exports of developed countries, and some of them had undertaken trade liberalization programmes. One member noted that in 1980 developed countries had exported to developing countries 2.3 times more than they had imported from them. Another member noted that the proposal for negotiations between developed and developing countries did not question the market access conditions in developing countries but was aimed at providing future security and stability of access in certain sectors in the contractual GATT sense.

17. One member proposed setting up a special group on trade of developing countries composed of the Chairman of the Council, the Chairman of the Committee on Trade and Development, the Chairman of the Balance-of-Payments Committee and representatives of developed and developing countries. This group would have broad terms of reference and might establish a programme of action which would include the following: reviewing, and seeking improvements to, GATT rules and activities relating to developing countries (Article XVIII, Enabling Clause, technical co-operation, ITC, etc.); further trade liberalization on products of interest to developing countries (semi-processed and processed tropical products, etc.); special treatment for the least-developed countries in such areas as the GSP and the MFA.

18. Some members were of the view that the foregoing proposals would not serve the purposes of developing countries. Carrying out studies on trade liberalization was always feasible, but what was essential was effective compliance with the rules of the GATT and the implementation by developed countries of policies in accordance with Part IV, in particular Article XXXVII, and the provisions of the Enabling Clause.

Future work of the GATT

19. In concluding the meeting the Chairman noted that all members recognized the seriousness of the economic, financial and trade background against which the Ministerial meeting would take place. This background made the Ministerial meeting more necessary than ever. The task of the CONTRACTING PARTIES was a very difficult one because in the area of trade

any protective action was more visible than the resistance to protectionism. The challenge was to find a way to show that it was in the interest of all contracting parties to resist the strong protectionist pressures faced by governments. The best approach appeared to be the one that had been followed in the preparations for the Ministerial meeting which had permitted to make progress in a number of areas even though there was still substantial work to be done.

Agriculture

20. The Chairman opened the Group's discussion on agriculture by recalling that the Group, as the only GATT body dealing with agricultural matters in general, had been requested to make a contribution towards the preparation of the Ministerial meeting as regards agriculture. It had not been possible for the Group, on the basis of the discussion at its last meeting in July, to present at that stage a draft agricultural work programme to the Preparatory Committee. Since that time, there had been discussions within the Preparatory Committee as well as informal consultations among interested delegations on a work programme for agriculture. Several different texts had been presented, which reflected different views about what could and should be done to improve the treatment of agricultural trade within the GATT. There appeared to be emerging a consensus to rationalize and render more transparent notifications on measures which affect market conditions and competition in trade in agricultural products. However, it was not yet clear what consensus could be reached on a number of other questions; for example, the need to establish an agriculture committee, the nature of the commitment by contracting parties to make further progress towards liberalization, and the possibility for improving disciplines on export subsidies, direct and indirect.

21. A number of speakers referred to the serious problems in the international agricultural situation caused by surpluses and depressed prices of many commodities. Net farm income was down in many countries. Further structural adjustment in the farm sector was rendered difficult by the lack of employment opportunities in other sectors.

22. One member believed that there had been considerable deterioration in the will of contracting parties to conduct trade in agricultural products in a manner consistent with GATT principles. He regretted the increased resort to barter trade which involved costs and other disadvantages for all concerned. He and some other speakers emphasized the necessity of a clear affirmation by Ministers that agriculture would be treated more equitably under the GATT. Greater opportunities should be available to all members of the international trading community to exploit those areas in which they enjoyed a comparative advantage.

23. However, some speakers considered that due regard must be given to the special characteristics of the agricultural sector. In the opinion of one member, the different rules regarding agriculture in the GATT had been drafted on the basis of objective differences between agriculture and

manufacturing industry. He and another speaker felt it was not appropriate to re-open negotiations on matters which had already been dealt with during the Tokyo Round. Before changing the rules applicable to agriculture, the existing rules should be applied fully.

24. Most speakers were prepared to consider positively the establishment of a committee to carry out a work programme on agriculture. One member considered this a logical corollary of the decision to have a specific chapter on agriculture in the Ministerial declaration. Although a few speakers referred to the need for certain analytical studies to be carried out by a committee, some stressed that a more constructive work programme than that would have to be developed before they could agree to the establishment of a committee. One member suggested that Ministers approve a work programme for agriculture to be carried out by some committee under the GATT, which would concentrate on subsidies, access to markets and the balance of rights and obligations among contracting parties. The work programme should have a termination date by which the Committee would report back to Ministers with recommendations which could be the basis for ministerial decisions. A few speakers mentioned that the establishment of an agriculture committee would not preclude the discussion of agricultural issues in other GATT bodies. Some stated that any new arrangements regarding safeguards or dispute settlement, for example, should apply fully to agriculture as well.

25. One member stated that the farm community in his country was preoccupied by the problems it faced as a result of export subsidization. His government was spending vast sums, under loan, storage and set-aside programmes, to keep domestic surpluses off the world market. Yet the subsidization of exports by other trading partners was operating to transfer elsewhere the burden of unemployment and causing problems for producers in his country among others. A review of all subsidies, particularly export subsidies, on all products, agricultural and industrial, should be carried out within a subsidies group and means should be found to better control subsidies and minimize their impact on other producers. He would not have any objection to having agricultural subsidies reviewed as well in an agriculture committee. Some speakers expressed interest in learning more details about the proposed subsidies group. One member, however, considered that given the interrelationship between the external and internal aspects of agriculture and the complexity of the measures affecting agricultural trade, agricultural matters must be dealt with in a single framework which could only be agricultural.

26. The Chairman suggested that delegations reflect further on a work programme for agriculture and pursue informal discussions in this regard.

Item 3. Other business

Membership of the CG.18

27. The Chairman recalled that the session of the CONTRACTING PARTIES would consider the question of membership of the Consultative Group for 1983. He requested that consultations on this matter should be undertaken without delay among the delegations concerned. The secretariat would also be carrying out consultations.

Date of next meeting

28. It was agreed that the date of the next meeting would be fixed by the Chairman in consultation with members.