

♦ GENERAL AGREEMENT ON  
TARIFFS AND TRADE

CG.18/24

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Consultative Group of Eighteen  
Twenty-fourth Meeting  
5-6 July 1984

NOTE ON THE TWENTY-FOURTH MEETING OF THE  
CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-fourth meeting on 5-6 July 1984. The annotated provisional agenda was circulated in CG.18/W/82 and the list of participants in CG.18/INF/25.

2. The agenda was as follows:

1. The Present Status of the Ministerial Work Programme
2. Structural Adjustment and Trade Policy
3. Countertrade
4. Other Business

Item 1 - The Present Status of the Ministerial Work Programme

3. Opening the discussion, the Chairman said that he hoped it would focus on the practical and political efforts which would be needed to ensure a satisfactory report to the November Session on the implementation of the work programme. Since the April meeting of the Group, when concern had been expressed about the speed of work on a number of subjects in the programme, there had been a certain amount of progress, notably in agriculture. Overall, however, there was still little sense of urgency and purposeful cooperation. Work was most obviously behind schedule on the vital issue of safeguards, on which, if there were to be movement towards real negotiation, some concrete proposals would have to be put on the table. On a number of subjects of special interest to developing countries, where much useful analytical work had been done, it would now be helpful to identify some specific opportunities for liberalisation and negotiation.

4. In the light of the need to strengthen and support economic recovery, the Chairman invited members to consider two questions: first, what practical measures could be taken to accelerate the implementation of the work programme in the run-up to the November Session; and second, since the Session must be seen as a stage in a continuing process, what outcome should be expected from it and how further work should be organised.

5. The discussion concentrated largely on specific items in the work programme, but in relation to the programme as a whole there was full agreement that it must continue to be given the highest priority and that maximum efforts must be made to observe the deadlines laid down by ministers for completion of particular tasks. It was also agreed that consideration must now be given to the organisation of work after November.

6. On the subject of safeguards, the Chairman of the Council informed the Group that informal consultations under his chairmanship would shortly resume. He thought it necessary that some decisions on this question should be taken at the Session, and for this to be possible concrete proposals for negotiation would have to be tabled in the near future. The Group agreed on the urgency of this matter and some members indicated that they hoped to be able to make proposals which would enable decisions to be taken in November on at least some elements of the safeguard problem, even though a comprehensive solution might not be attainable by that date.

7. One member said that the countries for which he spoke were ready to make special efforts in the coming months to advance the implementation of the work programme and improve trade relations. They hoped that other countries in a position to do so would follow suit, since liberalisation could not be a one-way street. First, they were considering the liberalisation of certain quantitative restrictions, with the interests of developing countries particularly in mind. They would also try to improve access for tropical products, perhaps by improvements in the GSP. They would continue to work constructively for a positive outcome in the Agriculture Committee and would do their best to promote agreement on safeguards, on which some ideas for a provisional solution (which would be necessary if a comprehensive solution by November appeared unattainable) were now in circulation. On paragraph 7(i) they would be ready to join in a renewed commitment at the Session to resist protectionist pressures. They hoped at that time to be able to announce the acceleration of Tokyo Round tariff cuts. On the question of exchange rates, they would be ready to join in an objective and non-prescriptive statement in November, which might state the problem and note the legitimate concern of those responsible for trade policy. They would also be ready to engage in further work on services and to negotiate on tariffs - with the problems of tariff peaks, escalation and bindings particularly in mind. They would wish to contribute to further work on trade in counterfeit goods, with a view to joint action in the GATT. They noted that some elements of the work programme were of less urgency than others. For example, the problems of dual pricing and rules of origin could perhaps be left aside for the present and taken up later if necessary.

8. Action on some items in the work programme would necessarily continue after November, notably on textiles, on which they would do their best to be sympathetic, particularly to truly developing countries, in the negotiations which would culminate in July 1986.

9. He added that improvements in such areas as technical cooperation would have budgetary implications, and the countries for which he spoke would do their best to be helpful in this regard. They were still concerned about procedural difficulties in dispute settlement, and would be favourably disposed towards a recommendation by the Director-General to create a reserve list of highly qualified panelists.

10. Another member said that his country, which had been urging the start of preparations for a new round of trade negotiations, saw the work programme as a necessary first stage in that process, and would do all it could to advance its implementation. The commitments contained in paragraph 7(i) of the Ministerial Declaration were crucial, and here the short-term objective, might be to achieve a standstill in the use of grey area measures, perhaps coupled with an element of rollback which might concentrate on measures of special interest to developing countries. There should be strict discipline in the use of Article XIX and of anti-dumping and countervailing measures, which were sometimes invoked too lightly. Greater transparency of trade policies was essential, and should be pursued if necessary in a committee created for the purpose, which might carry out reviews of individual countries' policies. Progress in safeguards had been disappointing, and pending agreement on a comprehensive solution Article XIX should be applied to the letter. His country would be in a position to be helpful on textiles, having substantially restructured its own industry. They would hope that substantive work might begin after November on services, with all due care as to modalities.

11. A number of these points were echoed by other speakers. One stressed that the present "window of opportunity" to act cooperatively to improve trade relations might not last very long; to take full advantage of it demanded maximum efforts from all contracting parties. Her own country attached high priority to safeguards, on which partial results at least must be achieved by November and intensive work continued thereafter. They would also have substantive proposals to make on agriculture, where progress so far had been satisfactory. Quantitative restrictions must also have high priority and she agreed with earlier speakers in recognising the special interests of developing countries in this area. On textiles, her government, like others, was under intense pressure to take protectionist action, and needed the support of international disciplines to resist it; we must endeavour to move forward here - and in order to improve trade policies generally, it would be of great assistance to politicians to have harder information than is presently available on the costs of protection to the consumer. This was particularly relevant to the implementation of paragraph 7(i). It was regrettable that so little progress had been made in the study of trade in resource-based products, and though on this nothing would be settled by November, it would be desirable to have a progress report to the Session. Her country would be making some specific proposals on dispute settlement. Work on services should be recognised as important and pressed forward.

12. Another member said that concentration on the work programme has recently overshadowed the very important undertakings, both joint and individual, to return to GATT rules, which were contained in the Ministerial Declaration itself. Like the work programme, these undertakings had regrettably become a matter for negotiation rather than simply being implemented as freely accepted obligations should be. It was important to complete as much as possible of the work programme before making a formal commitment to a new round, in order to create a common ground for negotiation, but it must be recognised that some elements in the work programme were too weighty to be resolved in substance except as part of a larger package. This meant that unrealistic short-term objectives must be eschewed, even while efforts to implement the work programme were intensified.

13. Other speakers emphasised the need to concentrate on the most important and difficult items in the work programme, and on questions clearly relevant to the need to maintain an open trading system. The safeguard issue, and the need to give operational substance to the observance of commitments under paragraph 7(i), were the examples most frequently cited.

14. Several members drew attention to the position stated in the Council by the Ambassador of Uruguay, on behalf of developing contracting parties, regarding the implementation of the work programme and of the undertakings in paragraph 7 of the Ministerial Declaration. It was pointed out that while all contracting parties shared the responsibility for faithful observance of ministerial decisions, developing countries had reason to be disappointed that since the Ministerial Meeting little real progress had been made in trade liberalisation. The agreement to advance Tokyo Round tariff cuts was a positive signal, but developed countries should act now, unilaterally or jointly, to remove illegal trade restrictions in accordance with paragraph 7(i) of the Ministerial Declaration. If such measures could not immediately be suspended, steps should be taken to mitigate their effects on developing countries. Similarly, while it might not be possible for long-standing quantitative restrictions to be eliminated immediately, some prompt action, apart from mere collection of information, must be taken.

15. Another member described his government's frustration at the lack of political will, which even the difficult economic circumstances of the time could not disguise, to take the positive action which had been expected to follow the Ministerial Meeting. Though the work programme could not be completed by November, some concrete steps must be taken by then if the frustration of developing countries was to be relieved, and he had been surprised and encouraged by the indications given at this meeting of a real intent to make progress in the autumn. He agreed that progression from the work programme to a new trade round could be seen as a natural continuum, but pointed out that moving to the stage of a negotiation entailed a political, not merely a technical, decision. For this reason it was very desirable to create a healthy political

atmosphere by positive action in the short term. Attention should be concentrated on implementing the work programme, and the desirability and feasibility of a new round considered subsequently. This was not intended as a negative position; his country would do its utmost to facilitate a successful outcome in November. The question of services must be approached, even in its procedural aspects, with great care; it was not only controversial and highly complex, but also had many implications for development policy, both economic and political.

16. Another member agreed that attention must be concentrated on the work programme and that the degree of preparation, and the legal status, of different items in the programme must be borne in mind, as must the competence of the GATT. He also welcomed the positive spirit manifested by some members from developed countries.

17. Several members stressed the importance of paragraph 7(i) of the Ministerial Declaration and the need to make it effective. It was suggested that the Council might report to the Session on the implementation of 7(i) and 7(viii). The suggestion that the undertakings contained in it should be reaffirmed in the November Session was thought to be potentially useful. The distinction between the commitments already accepted in the Declaration and the further commitments which might flow from the work programme was underlined.

18. Most speakers expressed satisfaction with the work done to date in the Agriculture Committee, but one cautioned against undue optimism on the ground that there had been little evidence of special attention to the needs of developing countries in relation to market access and to the effects on them of domestic support policies.

19. The Chairman concluded that this frank discussion had been helpful in indicating where advances might be possible in the short term and where there was a need for substantial extra effort. Another such discussion would clearly be useful; this should perhaps be the main business of the Group's next meeting, in October.

#### Item 2: Structural Adjustment and Trade Policy

20. The Chairman said that the discussions in the Working Party on Structural Adjustment and Trade Policy had demonstrated general agreement on the importance of the adjustment process and its relevance to many of the problems confronting the GATT. The purpose of the paper prepared by the secretariat at the request of a number of members (CG.18/W/83) was not to reopen these discussions but to pose two questions: first, was there a need to give operational force to the perception that adjustment policies can have a profound effect on trade flows and trade relations; and second, if there was such a need, whether anything could be done in practice, and in the GATT context, to meet it.

21. There was virtually no disagreement between members as to the vital role of structural adjustment in promoting the efficiency and growth of the world economy and of national economies. Many saw it as a fundamental obligation of governments to maintain an economic environment in which market forces and the principle of comparative advantage would stimulate innovation and a continuous process of adjustment to changing economic conditions. It appeared that this had become more difficult in recent years, even for governments persuaded of the necessity for it, because of economic stagnation, high unemployment, and monetary confusion. However, it was pointed out that these conditions were also occasionally cited by governments as excuses for actions, or failures to act, which themselves impeded adjustment and by causing economic rigidities and imperfections in the trading system were prolonging the recession. Nor was it evident that economic recovery had restored the vitality of the adjustment process, since it had not been accompanied by relief from protectionist measures.

22. Some members laid emphasis on the social problems caused by rapid economic change, and the consequent need for governments to smooth the process. Nevertheless, it was recognised that some industries would contract over time and that the function of government in these cases was to facilitate redeployment of the resources involved rather than to protect their employment in uneconomic uses. In developed countries, textiles and leather were among the industries which could be expected to contract, and they had indeed undergone massive adjustment in recent years.

23. Several members saw a strong North-South element in the adjustment problem, particularly in the light of the debt crisis. The debt burden could only be sustained if real interest rates could be kept below the growth rate of exports, but the export-led growth which this entailed for the indebted countries could not be achieved without secure access to developed markets, and this in turn required willingness on the part of the governments concerned to allow comparative advantage to operate internationally. Some "adjustment assistance measures" had precisely the opposite effect, by helping to keep uncompetitive firms and industries in existence. One member suggested that the GATT might adopt a programme aimed at facilitating structural adjustment in the short and medium term, particularly in areas of interest to developing countries. It was pointed out that developing countries themselves would also have to implement adjustment programmes in certain areas, and that the arguments for trade policies favouring structural flexibility were equally applicable to trade exchanges and trade relations between developing countries as to North-South relations.

24. There was general agreement that although relatively few GATT provisions - e.g. the Subsidies Code and Article XXXVII - refer directly to adjustment, adjustment problems underlay most of the difficulties confronting the GATT, and that liberal trade policies were among the most important conditions for economic flexibility. The minimal contribution of contracting parties to the promotion of

adjustment should be to respect and apply in full the provisions of the General Agreement. However, it was clear that most forms of government intervention in the economy, whether or not intended to affect industrial structures and performance, would in fact do so, whether for good or ill. They would thus also affect, directly or indirectly, trade flows and the interests - and perhaps also the contractual rights - of other contracting parties.

25. In considering the possibility that GATT could have an operational role in relation to adjustment policies, some members saw scope for some form of monitoring and surveillance, or at the least for the exchange of information. The Group discussed at some length the extent to which this might cover domestic measures such as adjustment assistance policies as well as to border measures. Most members recognised that concentration on border measures alone would exclude some of the most potent influences on industrial structures. Domestic subsidies, for example, could often be seen to have trade effects as important and almost as direct as export subsidies - and both forms of subsidy might frustrate or postpone adjustment rather than promote it. However, it was pointed out that GATT must remain a trade policy organisation: it should not trespass too far into questions of "industrial policy" and macro-economic policy, since they involved important aspects of national sovereignty which governments would be unwilling to subject to the judgement of their trading partners.

26. In discussion of the organisation of future work on this subject, there was some support for the establishment of a standing committee on structural adjustment or for the revival of the Working Party on Structural Adjustment and Trade Policy - though the Chairman of that Working Party cautioned against the waste of time that would be involved in simply repeating its work. It was generally agreed that the Working Party's report should, as a first step, be adopted by the Council, and subsequently be taken into account in the continuing work of the GATT.

27. One member suggested that a standing committee might examine the experience of adjustment in individual countries and in specific sectors and endeavour to draw conclusions on the role of GATT in relation to structural adjustment, without prejudice to any disciplines which might eventually be suggested. This exercise could also encompass new issues such as trade in high technology and services, which also involved adjustment problems, as well as the effects of grey area measures, safeguards and subsidies and such questions as the role of private enterprise and restrictive business practices, which had hitherto been largely ignored in GATT. Other members, however, thought that this would be too ambitious, and that it would lead directly into problems of industrial policy and national sovereignty. They favoured the examination of existing rules on such matters as safeguards and subsidies with a view to improving them so that impediments to adjustment might be removed. The point was made that monitoring and surveillance, however efficient, could only have limited value; it could never be a substitute for enforcement of GATT rules.

28. Some members saw the relationship between structural adjustment and safeguard measures as being the heart of the adjustment problem. It was suggested that countries applying safeguard measures might voluntarily submit to GATT information on the adjustment programmes to be implemented for the protected sector, together with a timetable for the elimination of the measures. It was noted that structural adjustment was not at present a condition for Article XIX action, and some members thought that consideration might be given to establishing such a link. Others, however, were doubtful of the desirability of doing so, though all recognised the negative impact which safeguard measures can have on industrial efficiency and the necessity to avoid offloading the cost of adjustment onto third countries.

29. There was general agreement that it would be inappropriate for GATT to become involved in purely domestic policies such as the encouragement of labour mobility and the provision of retraining schemes, though it was recognised that such measures could help secure support for trade liberalisation.

30. It was recognised that subsidies are among the most common and most influential of the means by which governments seek to change or preserve industrial structures, and that in some cases they may play a useful role in promoting adjustment. It was suggested that if subsidies could be classified according to their objectives, those intended to promote adjustment might be considered acceptable. A number of members, however, thought it would be very difficult, if not impossible, to develop criteria by which subsidies having these positive effects could be distinguished from those which simply reduce the pressure for adjustment or offset the legitimate comparative advantage of foreign suppliers. The point was also made that, like safeguards, subsidies tend to become permanent and therefore damaging, however good their original purpose. In this field as elsewhere, trade policies should emphasise adherence to the rules of GATT and the opening of markets to international competition.

31. A number of members said that their governments might be prepared to submit information on their structural policies and programmes to the GATT in the interests of greater transparency, and might also be prepared to discuss them, on the understanding that others would do likewise. None, however, could envisage such policies being subject to approval or disapproval in the GATT. It was pointed out that a great deal of information on this subject already existed, not only in the GATT but in the OECD and elsewhere, and the suggestion was made that the secretariat might prepare a synthesis of the work done in other organisations.

32. Summing up the discussion, the Chairman said that the Group seemed to agree that the GATT had a role to play in the adjustment process, which was very closely linked to the contractual relationships between contracting parties in such matters as subsidies, safeguards, quantitative restrictions etc. There had in

general been no desire to see the GATT assume new responsibilities in the area of industrial policies, and members had stressed that future work on adjustment should be pragmatic and realistic. Most members also laid emphasis on the notions of surveillance and transparency - the latter meaning the timely provision of full information on measures being implemented. The final objective of further work on this subject should be to bring governments to promote adjustment and flexibility by the use of trade policies which would enhance the operation of market forces. The Group had agreed that the Council should consider and adopt the report of the Working Party, and take any necessary decisions for the organisation of future work.

Item 3: Countertrade

33. The Chairman said that although hard information on the subject was scarce, it seemed clear that countertrade, or barter, was growing in volume and importance. As requested, the secretariat had produced a study (CG.18/W/80) on the economics of countertrade and the possible relevance to it of GATT rules. The first section of the paper sought to assess the scale and economic effects of the practice, described some of the forms it takes and suggested some of the reasons which might induce traders to do business in a way which necessarily involved costs which might be heavy. The second section of the paper analysed the possible relevance of GATT articles to some hypothetical cases of countertrade. He stressed that it had been impossible to carry out the remit given to the secretariat without expressing opinions on legal questions but that of course the secretariat made no claim to lay down the law.

34. The Group agreed that countertrade had been proliferating in recent years. Some speakers deplored this fact, pointing out that even if countertrade could be seen as a means of responding to distortions in international markets, it was an inefficient and costly solution which would perpetuate rather than remove the distortions. They agreed that countertrade increased transaction costs and made it impossible to choose the most appropriate source of supply and the most profitable outlets. Indeed, this was its purpose; countertrade created a false demand for goods which otherwise could not have been sold in international markets.

35. Some speakers made a distinction between countertrade required or mandated by governments and transactions arranged by private firms; it was suggested that the latter could in some cases be justified in economic terms, whereas government intervention necessarily created distortions and was incompatible with the obligation of all contracting parties to maintain a multilateral system based on GATT rules and principles. Countertrade in fact represented a pronounced movement towards bilateralism of an extreme kind, but because of lack of transparency it was difficult to apply GATT rules adequately. These members stressed the suggestion in the secretariat paper that government measures requiring or taking the form of countertrade could conflict with

obligations under the GATT and the Codes. One member said that obligations under Articles I, II, VI, XI, XIII, XVIII and XXIII, and possibly others, might be brought into question by different forms of countertrade. Concern was expressed in particular about the possibility that it might operate as a disguised form of dumping or export subsidy, or might facilitate the discriminatory application of quantitative restrictions.

36. It was also pointed out that, like other forms of bilateralism, countertrade could be abused by the larger or dominant partner in a transaction, to the detriment of smaller enterprises and smaller countries.

37. Some other speakers, while recognising that countertrade involved inefficiency, pointed out that it could be advantageous, or simply unavoidable, where there was no other means of financing transactions. Many developing countries, for example, were now faced by a chronic shortage of foreign exchange, and some might also find that countertrade provided the only means of access to highly protected markets. In such cases, countertrade would be likely to persist so long as protectionist policies were in force. If trade would not otherwise take place, countertrade could be said to have a trade-creating effect. The transfer of technology involved in some transactions could also be valuable. In some sectors - agriculture and civil aircraft were examples - barter was long-established and widely used, and could help to open up new markets. It might be expected to decline in importance as general economic conditions improved and excess production capacity was absorbed. Countertrade need not therefore be seen as a serious threat to the open market system.

38. Several speakers disagreed with the opinion that countertrade could hardly be consistent with GATT rules, pointing out that, as far as developing countries were concerned, it should be seen in the light of Article XVIII and Part IV. It was pointed out that countertrade arrangements were often proposed by enterprises from countries not having balance-of-payments or liquidity difficulties. These members tended to support the suggestion in the secretariat paper that countertrade was not in itself contrary to GATT or the Codes.

39. Doubt was expressed about the validity of the argument that government-mandated countertrade was likely to be more costly and inefficient than private, and about the feasibility of making an operational distinction between the two. Cases should be considered individually in the light of their effects - beneficial, harmful or otherwise.

40. It was widely felt that the growth of countertrade was a symptom of a general malaise in international trade and financial relations and that to restore these to health, notably by resisting protectionism and observing GATT rules, was the only way to limit its spread. Imperfections in the rules themselves were

not thought to be at the root of the problem. However, a number of members were of the opinion that concrete action was necessary to defend the open trading system and resist the spread of bilateralism. In their view a passive attitude to countertrade would amount to tacit approval, and it should be clearly stated that the effects of the practice were to restrict competition and strengthen bilateralism. It was suggested that the secretariat should elaborate its analysis of the economics of countertrade so as to provide a stronger basis for decision on the attitude contracting parties should adopt. Some other speakers argued that the evidence did not indicate any immediate ground for concern and that other problems should have higher priority.

41. The Chairman concluded that there were divergent views on the economic rationale, trade effects and GATT consistency of countertrade operations, though all members seemed to feel that the problem reflected more fundamental weaknesses in international economic relations. He had noted in particular the concern of members about the imbalance of advantage which characterised many countertrade generations, and the disagreement as to whether countertrade could in any circumstances be trade-creating. The secretariat would, as requested, prepare an appendix to CG.18/W/80 in which the economics of countertrade would be further analysed, and in the light of this the Group would be able to decide whether and when to revert to the subject.

#### Next Meeting

42. The Chairman suggested that the next meeting of the Group should take place in the latter part of October and proposed, subject to consultation with delegations, the dates of 25 and 26 October. The main business of the meeting would be the implementation of the Work Programme.