

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## REPORT OF THE CONSULTATIVE GROUP OF EIGHTEEN TO THE COUNCIL OF REPRESENTATIVES

### Introduction

1. The present report is submitted to the Council of Representatives in accordance with that part of the terms of reference of the Consultative Group of Eighteen which provides that the Group "shall submit once a year a comprehensive account of its activities to the Council" (document L/4204).
  2. As agreed by the Consultative Group of Eighteen the present report has been prepared and submitted by the Chairman of the Group on his own responsibility.
  3. Since it last reported to the Council in October 1977 (L/4585) the Consultative Group of Eighteen has held three meetings: on 20-21 February 1978, 8-9 June 1978 and 12-13 October 1978. For the purposes of this report the Group's activities are summarized under the following general headings:
    - I. Recent developments in trade policies and international trade.
    - II. The GATT Survey of developments in commercial policy.
    - III. Trade measures taken for balance-of-payments purposes.
    - IV. Definitive application of the General Agreement.
    - V. The GATT after the Tokyo Round.
    - VI. Other matters.
- I. Recent developments in trade policies and international trade
4. In each of its meetings the Group reviewed recent developments in trade policies and international trade. As background material, the Group had available the GATT Study "Trade Liberalization, Protectionism and Interdependence". The

Group's main focus of attention was protectionism, its causes and the remedies against it. It was observed that decades of continuous, euphoric growth had often hidden basic structural weaknesses and that the necessary changes now had to be made in a period of recession which caused serious policy problems. It was however also pointed out that cyclical factors could not explain all protectionist measures. Some of these measures, in particular in the textiles field, had been applied for many years and were largely due to efforts to protect industries from the consequences of wrong investment decisions. It was recognized in the Group that there were many differences between the crisis of the 1930's and the present situation. It was pointed out that the major economies were now recovering, new protectionist measures were limited to certain sectors, and many governments had withstood surprisingly well very strong political pressures. Moreover the need for constructive international co-operation was now recognized. It was however also noted with regret that protectionism was directed to a large extent against developing countries' exports. The view was widespread in the Group that there should be greater emphasis on positive rather than defensive adjustment policies and that efforts should be made to adapt production to foreign competition in times of economic expansion.

## II. The GATT Survey of developments in commercial policy

5. At its meeting in February 1978 the Group discussed a proposal that the secretariat prepare a Survey of Developments in Commercial Policy. The proposal found general support and, at its meeting in June 1978, the Group had an exchange of views on the first issue of the Survey. Most members considered the Survey a useful instrument for providing transparency in commercial policies, recommended its continuation but also made suggestions for improvements. These suggestions related, inter alia, to the use of sources of information, the layout of the Survey and the presentation of the information.

## III. Trade measures taken for balance-of-payments purposes

6. At its meeting in February 1978 the Group continued its discussion on trade measures taken for balance-of-payments purposes. While the earlier discussions in the Group had covered proposals for improvements in GATT rules and procedures in this area in general, the debate at this meeting focused more particularly on the procedures for balance-of-payments consultations of developing countries. The present consultation procedures were described by some members as a painful exercise which was biased against the developing countries. Among the remedies suggested were a more balanced membership of the Committee on Balance-of-Payments Restrictions, the broadening of the consultations to cover also the restrictive measures of other countries that may have brought about the consulting country's payments difficulties and agreement on objective criteria on which to base the decision on whether full or simplified consultations are to be held.

7. The suggestion was made that a further detailed discussion of trade measures taken for balance-of-payments purposes should be held in the Group "Framework". The Chairman concluded the discussion in the Group of Eighteen by pointing out that there had not been an evolution of thought on balance-of-payments oriented trade measures since the so-called sophisticated measures had emerged in the early 1960's. Now, as then, those who felt that surcharges and import deposits imposed for balance-of-payments reasons should be legalized in recognition of realities were opposed by those who thought that a legalization would stimulate a more extensive use of such measures. He expressed his regret that the discussion in the Group had done little to promote a convergence of views and emphasized the need to begin a true dialogue.

#### IV. Definitive application of the General Agreement

8. At its meeting in February 1978 the Group discussed the question of the definitive application of the General Agreement on the basis of a memorandum presented by one member. The view was expressed that the MTN presented a good opportunity to deal with the legislation covered by the Protocol of Provisional Application. A definitive application of GATT would bring about equality of rights and obligations among contracting parties it being understood that there would continue to be special rules for developing countries. It was proposed that the matter be examined and that for this purpose an inventory of mandatory legislation covered by the Protocol of Provisional Application and accession protocols be established. Another view was that such an inventory would only be useful if it covered all measures inconsistent with the General Agreement, be they imposed in violation of the contracting parties' obligations or in conformity with them. Since no consensus could be reached on the matter the Chairman suggested that the issue be pursued in consultations among the contracting parties concerned.

#### V. The GATT after the Tokyo Round

9. This subject was the main focus of attention of the Group at its meetings in June and October 1978. The Group agreed that, at the end of the Tokyo Round, the CONTRACTING PARTIES would need to make an assessment of the major problems likely to arise in international trade relations in the 1980's and to give some guidance on GATT's perception of future trade relations, and that an early preparation of such an initiative by the Group was called for.

10. At its meeting in October 1978 the Group considered a number of issues that might demand priority attention in the 1980's, namely: Implementing the results of the Tokyo Round, competition (anti-trust) policy and international trade policy, the problems of adjustment to competition, trade relations between developed and developing countries, issues relating to the growing intervention of governments in production and trade, East-West trade, agriculture and the growth of regional arrangements.

11. The Group had a wide-ranging exchange of views on these issues and the appropriate responses to them. Throughout the discussion it was widely recognized that a common perception of the basic principles that should govern trade relations was necessary to ensure a proper administration of the GATT and the various supplementary codes under negotiation and to avoid ad hoc responses to immediate pressures and the resulting risk of inconsistency, inequality and uncertainty. It was further recognized that the development of such common perceptions should establish a climate of confidence in the effective functioning of the international trading system and thus promote economic growth and investment.

12. The Group exchanged views on the relative merits of a rule-oriented and a management-oriented approach to international trade relations. Rules, it was pointed out, protected the smaller members of the trading community and made governmental interventions in the flow of goods across borders predictable for all countries; inherent in the management approach was the danger of unpredictable ad hoc solutions imposed by the stronger trading partners on the weaker ones. It was therefore an illusion to believe that new procedures and institutions were an effective substitute for clearly spelled out, equitable and precise rules. It was also pointed out however that the present world economic situation was characterized by such instability and diversity that some resort to procedures for arriving at concerted solutions was inevitable. Moreover, GATT had to exert pressure on

governments prudently, pragmatically and without over-extending itself. If the relative weight of rules on the one hand and procedures for consultation and concertation based on common sense and fairness on the other were substantially altered the results might become unacceptable for governments. It was further stressed that sectorial approaches leading to sectorial solutions were undesirable and that there was the need for a clear separation of rule application and management procedures so that underlying principles and commitments were protected. In this context it was further stated that, in many instances, the non-observance of GATT rules was not due to the lack of willingness to co-operate but rather due to the fact that the rules were no longer realistic and appropriate in present circumstances. For the sake of preserving the integrity of the General Agreement and the supplementary codes, flexible rule amendment procedures should therefore be agreed.

13. Another major topic in the Group's discussion was the adjustment to foreign competition. The dynamic export performance of developing countries in recent years was seen as a gratifying yet challenging change in the world economy, and it was observed that the capacity of the industrialized countries to maintain open markets in the face of rapidly increasing exports by the developing countries depended crucially on the efficient functioning of the adjustment process in the industrialized countries. Several proposals were made on how GATT could further the adjustment process, one aiming at new GATT machinery to monitor the adjustment process, another providing for new substantive commitments in this area.

14. The Group had a brief debate on the concept of graduation. One view was that while developing countries should be accorded the additional flexibility that may be justified in terms of their particular development needs, they should also, consistently with the development of their economies progressively accept the common rules and disciplines. The newly industrializing countries had an important stake in the open trading system and they should contribute to the maintenance of that system by gradually accepting greater obligations themselves. The GATT had to ensure not only that the trade of the developing countries received support but also that it was conducted to all contracting parties' benefit. There were, however, also some critical observations on the concept of graduation. It was as yet not clear how the concept could be integrated into the existing or future GATT system. Moreover it was so far a fuzzy concept whose application could easily entail discrimination for non-developmental reasons. One of the future challenges of GATT was to devise ways to avoid harmful discrimination by developed countries against developing countries while at the same time making it possible to take into account the individual characteristics of each developing country.

15. The Group discussed approaches to future trade liberalization. Non-tariff barriers, it was suggested, might in the future be taken up in negotiations subject by subject rather than simultaneously in a new round. The practice of periodic comprehensive negotiations should be replaced by a process of permanent negotiations and all governments should obtain the necessary legislative mandate to participate in such a process. Importance was also attached to an early start of a new round of trade negotiations among developing countries.

16. There was general agreement in the Group that the times had gone in which trade negotiations led to new rules or concessions that could then be implemented more or less automatically by specialists. The growing interdependence between commercial, financial, monetary and social policies forced trade policy makers to take their decisions with an increasingly broad perspective. They were facing a more and more complex international economic system in which no individual problem could be solved without regard to the wider implications and this in an age of uncertainty about basic goals. It was therefore essential for GATT to have a forum in which not only concrete issues but also basic principles could be discussed. It was felt that the rôle of the Consultative Group should be assessed in this perspective.

#### VI. Other matters

17. At its meetings of June and October 1978 the Group was informed by the Chairman and the Deputy Director-General, Trade Policy, of relevant developments in the IMF Interim Committee, the Joint IMF - World Bank Development Committee and the Annual Meeting of the IMF and the World Bank.