

GENERAL AGREEMENT ON TARIFFS AND TRADE

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

Introduction

1. This report is submitted to the Council of Representatives in accordance with the terms of reference of the Consultative Group of Eighteen which provide that the Group "shall submit once a year a comprehensive account of its activities to the Council" (BISD 26S/289-290).
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 (L/5066 of 31 October 1980) the Consultative Group of Eighteen has held three meetings, on 25-27 March, on 25-26 June and on 14-16 October 1981.
4. The subjects discussed at these meetings were as follows:
 - I. The current economic situation and its implications for trade policy (all meetings);
 - II. Results of the Multilateral Trade Negotiations and outstanding issues (March and June meetings);
 - III. Structural adjustment and trade policy (March meeting);
 - IV. Trade in services (March meeting);
 - V. Rules of origin (March meeting);
 - VI. Investment performance requirements and incentives (March meeting);
 - VII. The international trading system as it relates to agricultural trade (March meeting);
 - VIII. Recent developments in agricultural trade and policy, and market situation of major commodities (June and October meetings);
 - IX. Agriculture and the GATT (October meeting);
 - X. Proposed ministerial meeting (October meeting).

I. The current economic situation and its implications for trade policy

5. Discussion of this subject in all three meetings was conditioned by the Group's awareness of the stagnation of world trade in 1980 and the absence of any indications of improvement in 1981. In March the Group had before it GATT/1285, which reported that growth rates of world trade and production had declined in 1980, while unemployment had increased and inflation persisted: rising protectionist pressures, and increasing resort to trade measures outside the GATT, threatened to undermine confidence in the multilateral trading system. The trade and payments positions of some developing countries were grave and still deteriorating. The Group considered what might be done in the GATT to help deal with some pending problems and to restore a sense of commitment to the system. There was agreement on the need for expression of the political will to maintain and strengthen the system, particularly by faithful implementation of the Tokyo Round results and completion of the tasks left unfinished in the MTNs.

6. This discussion was pursued at the Group's June meeting, with special reference to the need for a response at political level to the accumulation of sectoral and other difficulties and the apparent increase of uncertainty in the functioning of the trading system. There was broad agreement to recommend that the CONTRACTING PARTIES should envisage convening a ministerial meeting during 1982. This was seen as an opportunity to confirm the will of governments to support the multilateral system, to enhance its credibility in the face of current stresses, to find solutions for outstanding problems and to set priorities for GATT's future work. It was recognized that the decision to convene such a meeting could only be taken by the CONTRACTING PARTIES, who would also have to decide on its nature, composition and agenda. The Group decided to continue its discussion of these questions, with a view to facilitating the task of the CONTRACTING PARTIES (see item 10 below).

7. At its October meeting the Group had before it the first chapter of GATT's annual report on international trade for 1980/81 (GATT/1295) which confirmed the economic trends identified in the spring and considered three central issues of economic policy - inflation, protectionism and adjustment. It also described developments in trade and trade policy in the oil-importing developing countries, and the rôle of liberal economic and trade policies in both developing and developed countries in safeguarding the functioning of the international financial system and in promoting development. The Group agreed with the report's analysis of the dangers which the continuation of current trends in the world economy would pose for the trading system. They reaffirmed the crucial importance of determined resistance to protectionist pressures and of close co-operation in GATT. The relevance of the situation depicted in this report to a GATT meeting at ministerial level, if one were to be convened, was recognized by all members.

II. Results of the Multilateral Trade Negotiations and outstanding issues

8. In March and June the Group discussed the implementation of the MTN results and experience in the operation of the Codes. They also considered a number of issues still outstanding from the Tokyo Round, such as the problem of safeguards, tariff escalation, tropical products and residual quantitative restrictions. A report by the secretariat on the implementation of the MTN results to date (CG.18/W/54) was put before the June meeting.

9. There was agreement on the need for the widest possible participation in the Codes, particularly by developing countries, without which the General Agreement might be in danger of losing its integrated character. Some members suggested that developing countries were hesitant about joining the Codes because of the inadequacy of the provisions for special and differential treatment, and the uncertainty caused by autonomous interpretation of the Codes by individual signatories. It was also thought that some developing countries were deterred by the technical complexity of the Codes, and some members called for a greater effort by the secretariat by way of technical assistance and advice on the implications of the Codes. There was general agreement on the need for maximum transparency in the operation of the Codes.

10. In the matter of safeguards, members pointed to the danger of continued failure to reach agreement and expressed the hope that the Committee on Safeguards would be able to make a new start.

11. It was agreed that the implementation of the MTN results should remain on the Group's agenda.

III. Structural adjustment and trade policy

12. The Group had before it the report of the Working Party set up by the Council in November 1980 on this subject (L/5120). In its report, the Working Party had noted that work in GATT on structural adjustment must remain related to GATT's basic objectives, particularly those of trade expansion and liberalization. Several members stressed that future work on this subject should stay strictly within GATT's competence, and that its main focus should be the use of restrictive trade policies to frustrate structural adjustment. One member drew attention to the practical difficulty of carrying out positive adjustment policies and to the social and economic limitations on the ability of governments to countenance the rapid contraction of important industries. Other members suggested that governments might be expected to facilitate necessary changes within reasonable time-limits in those sectors which had for a long time been over-protected.

13. In general the report of the Working Party was welcomed as a good starting point for further work. It was agreed that the Group would continue to follow developments on this subject closely and that the Working Party should report back to the Group in due course.

IV. Trade in services

14. The Group considered an analysis by the secretariat of services which are linked with trade in goods (CG.18/W/49). This was a preliminary document which nevertheless demonstrated an essential link between trade in goods and certain services. The Chairman suggested that trade-related services might therefore be regarded as a proper concern of the GATT. The discussion revealed a wide range of views within the Group as to the necessity and the advisability of extending the work of GATT into this area. The growing volume of trade in services, and the impact of certain services on trade in goods was widely recognized, and some members were seriously concerned about the barriers which impede trade in services. However, some of those members stressed the complexity of this field, parts of which were the direct responsibility of other international organizations, and suggested that the collection of information on work being done elsewhere should be the secretariat's first concern. Other members felt that it would be premature to engage in substantive work on this subject now, and some doubted the feasibility of extending GATT's activities in this area. However, no member opposed further work by the secretariat on an exploratory basis and it was agreed that a report on the activities of other organizations in the area of services should be prepared for consideration at a future meeting of the Group.

V. Rules of origin

15. As agreed by the Consultative Group in 1980, the secretariat prepared a factual note on rules of origin currently applied in international trade (CG.18/W/48) which was considered at the March 1981 meeting of the Group. Besides indicating the relevant GATT provisions, the note described the concept of origin rules and the main criteria generally applied in origin systems. The annex to the note gave an account of origin rules in various international trading arrangements.

16. Recalling the diversity of origin rules and practices and the restrictive effect of some of them, one member said that some degree of harmonization in this area was desirable. If the Consultative Group did not undertake to examine this issue, the matter might be brought before other GATT bodies, or the Customs Co-operation Council. The proposal was made that a working party might be set up to examine origin issues in GATT.

17. The need to examine this issue further was questioned, on the ground that harmonization of rules of origin was not a real and pressing problem requiring further consideration by the Group at this stage. Harmonization would also be

a difficult process. The reasons for establishing rules of origin varied; in some cases they were required to ensure that benefits accrued only to members of regional arrangements, while in other situations origin rules were related to the application of certain restrictions. If any specific difficulties in connexion with rules of origin arose, GATT procedures provided the basis for consultation between the countries concerned.

18. It was noted that there were conflicting views on this subject and that the possible rôle of the Group had not been defined. This discussion had brought out the basic elements of the problem, and the Group could revert to it if so desired. It could also be considered if necessary in some of the permanent bodies of GATT.

VI. Investment performance requirements and incentives

19. At the March meeting, the Consultative Group had before it a paper on Investment Performance Requirements and Incentives (CG.18/W/51) submitted by a member who expressed concern that the increasing world-wide use of such measures might also affect third countries' trading interests, even to the point of impairing benefits negotiated under the GATT. A survey of trade-related investment performance requirements and incentives should be undertaken to ascertain if any of these practices violated specific GATT provisions or nullified or impaired GATT benefits. If so, it might become necessary to examine their justification.

20. The Group had a preliminary discussion of this question from which it emerged that there were two broad reactions to the paper.

21. Some members argued that the competence of GATT to deal with many of the practices referred to was doubtful and that other organizations were already engaged in studying them. If damage to the trade interests of contracting parties could be proved, Articles XXII and XXIII provided remedies. If GATT's activities were to be extended in this direction, it would also be necessary to cover the activities of transnational corporations, access to capital markets, structural adjustment, restrictive business practices and so on. One member stressed that if performance requirements were examined in GATT, certain restrictive practices of transnational corporations should be examined at the same time.

22. However, other members of the Group welcomed the initiative as having important implications for trade. They believed that it would be proper at this stage to ask the secretariat to compile information on the two types of investment requirements most directly related to trade, i.e. export requirements and import substitution requirements.

23. As a first step, it was suggested that the secretariat might be asked to study further the relationship between investment and trade flows and the relevant provisions of the General Agreement.

24. The Consultative Group agreed that the secretariat should prepare a note describing the work being done in other international organizations on the question of export requirements and requirements regarding import substitution, listing the relevant provisions of the General Agreement. The issue would be kept on the agenda of the Group.

VII. The international trading system as it relates to agricultural trade

25. The March meeting was the first to take place since the decision of the CONTRACTING PARTIES to request the Group to provide adequate additional time for the review of matters affecting agricultural trade (SR.36/3).

26. The Group welcomed this opportunity to discuss agricultural trade and policies, and their relation with GATT, in general terms, as distinct from the consideration of specific sectors and cases of dispute which took place in other GATT fora. Following a suggestion by the Chairman that the Group should consider whether GATT is dealing adequately with agriculture, some members referred to the widespread perception that GATT rules do not apply to agricultural trade as they do to industry. One member stated that GATT must be made more relevant to agricultural trade if governments, particularly in larger countries, were to be persuaded to give due weight to the international consequences of their domestic policies.

27. Several members gave an account of likely developments in agricultural policy in their countries, and of the factors underlying these developments.

28. As a basis for further discussion the secretariat was asked to prepare analyses of the rules of GATT as they apply to agriculture and of the current economic situation in agriculture, together with notes on recent agricultural policy measures and on discussions concerning agriculture in other fora.

VIII. Recent developments in agricultural trade and policy, and market situation of major commodities

29. At its June meeting the Group continued its discussion of the extent to which GATT rules were effectively applied in the agricultural sector. Several members said that the number of derogations and special arrangements in this sector resulted in the insulation of agriculture in many countries from international competition. Several members stressed the need to improve access to markets in order to promote agricultural production in developing countries. The view was expressed that the time had come to review national policies which led to market distortion: GATT rules should not merely be appropriately enforced, but also re-examined as they applied to agriculture.

30. It was also stated, on the other hand, that notwithstanding persistent problems relating to agricultural trade, experience had shown that satisfactory accommodations could always be found within the GATT system. The precise rights and obligations of contracting parties in this sector must always be borne in mind, however.

31. It was agreed that these issues would be examined in depth at a later stage.

32. The situation of agricultural markets was examined in June on the basis of a secretariat study (CG.18/W/55). An updated and revised version of this study was put before the October meeting, together with a note on recent policy measures (CG.18/W/57) and one on meetings in other fora (CG.18/W/58).

IX. Agriculture in the GATT

33. The secretariat had prepared an analysis of the General Agreement, of the Codes and of the other activities of the GATT from the point of view of their application to agricultural trade (CG.18/W/59). This revealed that for a number of reasons the GATT, in the broad sense, did not apply in the same manner to agricultural trade as to trade in industrial products.

34. The main lines of the secretariat analysis were generally endorsed by the Group. As to the reasons for the differential treatment of agriculture, reference was made to the differences incorporated into the General Agreement itself, the effects of long-standing derogations, disagreement as to the interpretation of certain GATT articles, to the existence of residual quantitative restrictions on agricultural products and to the undefined status, in GATT terms, of certain agricultural policy measures. It was agreed that the next step should be to pursue the analysis to a point at which it would be possible to determine whether remedies for the situation described were necessary and feasible, and if so, what they might be. Several members suggested that the situation described in this paper should be considered at any future meeting of CONTRACTING PARTIES at ministerial level. It was also suggested that a fundamental question needing to be addressed was why agricultural trade had been subject to differential treatment, and that study of the factors underlying different national policies would be a necessary part of this.

35. It was agreed that for the next stage of the Group's work the secretariat, in consultation with delegations and taking account of the points made in this meeting, would complete and improve the analysis in CG.18/W/59. The Group will pursue its examination of these questions at its next meeting.

X. Proposed ministerial meeting

36. In its October meeting the Group returned to the subject of the proposed ministerial meeting, with the intention of facilitating, as far as possible, the decision to be taken by the CONTRACTING PARTIES. They had before them three papers by the secretariat: a note on the procedural arrangements which

might be envisaged for a ministerial meeting (CG.18/W/60); a note on the issues underlying the proposal (CG.18/W/61); and a note on the manner in which preparatory work for previous ministerial meetings in the GATT has been carried out (CG.18/W/62). These three papers are annexed to this report. As indicated earlier, in its examination of issues relating to the ministerial meeting, the Group also took into account the analysis contained in the first chapter of GATT's annual report (GATT/1295).

37. The Group recognized that decisions on the nature and the agenda of a ministerial meeting, as on the manner of its preparation, can only be taken by the CONTRACTING PARTIES. They felt, however, that it would be helpful to the CONTRACTING PARTIES if the Group were able to make some reasonably specific recommendations on procedural issues and to begin an exchange of ideas on the objectives and coverage of the meeting.

38. The discussion of the underlying issues which had led the Group to propose that a ministerial meeting should be convened in 1982 revealed substantial convergence of views. Thus, many members saw a need to consider at political level the health of the trading system, including any necessary improvements in the system, and to reaffirm the commitment of the trading nations to the respect of the rules which sustain the system. Many members likewise saw a need to set priorities for the future work of GATT, as well as to deal with outstanding problems. It was generally agreed that a ministerial meeting in 1982 would be an appropriate occasion to assess the implementation of the Tokyo Round results.

39. On the procedural questions raised in CG.18/W/60, it was the general view of the Group that the CONTRACTING PARTIES should consider convening their session of November 1982 at ministerial level. This would place the meeting firmly within the context of the GATT and would give it the authority to take decisions or make recommendations with direct effect on the operations of the GATT. The normal rules for the attendance of observers from non-contracting parties taking an interest in GATT affairs and from non-governmental organizations would apply. The Group recognized that it might be desirable to carry out the normal business of the annual session, such as action on the report of the Council, administrative and financial arrangements, etc. at non-ministerial level. As to the location of the meeting, there was a strong preference in the Group that it should take place in Geneva.

40. The Group emphasized that for the meeting to be effective and useful it would have to be prepared with great thoroughness, and that the work of preparation should begin as soon as possible after the decision to convene the meeting had been taken. Of those members who raised the question of responsibility for the preparatory work, the majority felt that it should take place under the authority of the Council, with the assistance, as

needed, of other permanent bodies of the GATT, such as the CG.18 and the Committee on Trade and Development. Some members suggested that the Council might wish to establish a preparatory committee with a mandate to prepare the agenda for the ministerial meeting and report back to the Council.

41. The Group therefore unanimously recommended that at the thirty-seventh session the CONTRACTING PARTIES should consider convening their session of 1982 at ministerial level.

ANNEX I
(CG.18/W/60)

PROPOSED MINISTERIAL MEETING: PROCEDURAL ARRANGEMENTS

Note by the Secretariat

1. At its fifteenth meeting in June 1981, the Group agreed that "it would be useful to consider at the political level the overall condition of the trading system. There was broad agreement that to this end it would be appropriate for the GATT CONTRACTING PARTIES to envisage convening a ministerial meeting during 1982". The Group also agreed to pursue its discussion on this subject at its next meeting, "with a view to facilitating the task of the CONTRACTING PARTIES". (GATT/1291, paragraph 3).

2. The Thirty Seventh Session of the CONTRACTING PARTIES will be held in the week beginning 23 November 1981. It seems appropriate, therefore, that the Group should decide at its present meeting on such recommendations regarding the proposed ministerial meeting as it may wish to make to assist the CONTRACTING PARTIES in taking a decision on this matter. A separate secretariat note (CG.18/W/61) discusses background issues relating to the proposed ministerial meeting. The present note is confined to more procedural issues: the composition and status of the proposed meeting; the date, duration and place; and arrangements for preparing the meeting.

Composition and status

3. The options available, as regards the composition and status of a ministerial meeting called by the CONTRACTING PARTIES would appear to be:

- (a) a meeting open to all governments;
- (b) a meeting open to all contracting parties with certain other governments invited;
- (c) an ad hoc meeting of contracting parties;
- (d) a Session of the CONTRACTING PARTIES. This option would permit attendance of the governments and organizations which have observer status at Sessions: this includes all countries applying the GATT de facto, as well as a number of other governments. It would of course be open to governments which do not at present have observer status to request such status.

4. A choice between these options cannot be entirely divorced from a judgement on the substance of the proposed ministerial meeting. Discussion in the fifteenth meeting of the Consultative Group suggested, however, that most members saw the proposed meeting as

providing an opportunity for the CONTRACTING PARTIES to take stock of the condition of the GATT trading system and to provide political direction to GATT's work. It would thus seem logical to envisage the ministerial meeting taking place within the context of GATT itself, and in the form of a Session of the CONTRACTING PARTIES. Such a Session would naturally focus its attention on GATT's direct concerns. It would have the authority to take decisions that would be immediately effective in the GATT context. The established arrangements for observers would permit all governments taking an interest in developments in GATT to attend. Established and comprehensive arrangements also exist for attendance of observers from intergovernmental organizations.

Date of the meeting

5. The Group has already agreed that in any event "adequate preparation for such a meeting would be essential" (GATT/1291, paragraph 3). From consultations with delegations, it appears to the secretariat that there is a widespread view that such preparations would require more than the three or four months that would be effectively available if the meeting took place in the first half of 1982. If, as suggested in paragraph 4, the meeting took the form of a Session of the CONTRACTING PARTIES, it could appropriately be called at the normal time for such sessions i.e. in late November 1982.

Duration of the meeting

6. On the basis of a general debate, which would require two to three days, and perhaps one day for examination and adoption of any decisions, the ministerial meeting might be expected to last three to four days.

Place of the meeting

7. For reasons of budget and convenience, almost all GATT meetings have been held in Geneva. The secretariat has ascertained that, at least in late November 1982, suitable conference accommodation would be available in the International Conference Centre.

Preparations for the meeting

8. While the Group may wish to make suggestions to the forthcoming Session of the CONTRACTING PARTIES concerning the scope and broad aims of the proposed ministerial meeting, it is clear that detailed preparation can take place only after a decision to convene the meeting is taken. Since such preparations should be open to all governments participating in the meeting, the nature of the preparatory body would depend on the status of the meeting itself.

Preparation of a meeting within the framework of GATT, such as a Session of the CONTRACTING PARTIES, would normally be the responsibility of the Council of Representatives, which in turn might decide to delegate it to an existing or ad hoc body.

9. The preparatory body will have to consider at an early stage the agenda and the nature of the documentation to be submitted to Ministers.

10. Discussions in the Committee on Trade and Development, in the CG.18 and in other GATT fora could assist in the preparation of the meeting.

ANNEX II
(CG.18/W/61)

PROPOSED MINISTERIAL MEETING: BACKGROUND ISSUES

Note by the Secretariat

1. The fifteenth meeting of the Consultative Group of Eighteen, in June 1981, reached the conclusion that "it would be useful to consider at the political level the overall condition of the trading system. There was broad agreement that to this end it would be appropriate for the GATT CONTRACTING PARTIES to envisage convening a ministerial meeting during 1982". Paragraphs 2 and 3 of the press communiqué (GATT/1291)¹ issued after the meeting summarize the considerations leading to this conclusion.
2. The thirty-seventh session of the CONTRACTING PARTIES, in November 1982, will have before it the annual report of the Group to the Council, including an account of the exchange of views in the Group on the proposal for a ministerial meeting. The present note is intended as a contribution by the secretariat to the further discussion of this proposal which the Group agreed should take place at the present meeting. A separate secretariat note (CG.18/W/60) puts forward some considerations regarding procedural issues.

International trade and GATT

3. Over the history of GATT, negotiation and co-operation among its signatories can be seen as having passed through successive phases, in response to changes in the pattern and perceived needs of international trade. Each new phase has required a stocktaking, generally at the political level, so as to arrive at a shared view of the situation, and on the direction of future work of the CONTRACTING PARTIES.
4. Initially, the CONTRACTING PARTIES, reacting to the widespread protectionism of the 1930's and the high trade barriers prevailing in the immediate post-war period, concentrated on the gradual removal of quantitative restrictions and the reduction and binding of tariffs, the traditional barriers to international trade. Subsequently, the CONTRACTING PARTIES had to respond to the situation resulting from the emergence of important regional groupings. Tariff negotiating techniques were modified and extended. By the conclusion of the Kennedy Round in 1967, successive negotiating rounds had led to an impressive lowering of tariffs, and most developed contracting parties had ceased to invoke GATT's balance-of-payments exception to justify quantitative restrictions although restrictions continued to

¹ See Appendix

be applied in certain areas. The original membership of GATT had tripled, and both the legal structure and the institutional framework of GATT had been adapted to respond more adequately to trade policy issues of concern to contracting parties.

5. With the Tokyo Declaration of September 1973, the scope of co-operation in GATT was greatly extended, particularly in the area of non-tariff measures such as domestic subsidies, technical standards and government procurement. Provisions relating to special and differential treatment of developing countries were written into most of the agreements on non-tariff measures, and, through a decision adopted by the CONTRACTING PARTIES, into the legal framework of the General Agreement itself.

6. While the results of the multilateral trade negotiations were substantial, they did not respond to all the concerns expressed at the time of the adoption of the Tokyo Declaration. When the CONTRACTING PARTIES adopted a new GATT work programme in November 1979 it was therefore natural that they stressed the need, both to ensure a prompt and full implementation of the agreements reached in the Tokyo Round, and to carry forward work in areas where the results of the negotiations did not correspond to the expectations of many contracting parties (such as safeguards, the development of a framework for agriculture, and the trade problems of developing countries).

7. The CONTRACTING PARTIES are now engaged in implementing the Tokyo Round results and carrying forward the GATT work programme of 1979. At the same time, however, new stresses and opportunities have been emerging in international trade relations, and problems of longer standing have become more pronounced. Many have a direct impact on the operation of the multilateral trading system, and thus deserve the attention of the CONTRACTING PARTIES.

8. Many of these trends and problems have been discussed in the meetings of the Consultative Group.¹ The secretariat has explored them in papers submitted to the Group and in its annual report "International Trade". Governments have in the Group and elsewhere drawn attention to their specific new trade problems and will most likely do so again if it is decided to prepare a ministerial meeting. A detailed analysis would be beyond the scope of this paper but some major trends may usefully be distinguished here.

¹ Specific issues raised, in addition to the generally recognized need to maintain the effectiveness of the GATT trading system and to resist protectionist pressures, include trade in agricultural products; safeguards; implementation and possible strengthening of the agreements resulting from the multilateral trade negotiations; trade in services; structural adjustment; restrictive business practices; investment performance requirements; rules of origin; export restrictions and charges; and more generally, a renewed effort to pursue trade liberalization, especially for the trade of developing countries.

Trends in the world economy

9. In retrospect, the year of the Tokyo Declaration can be regarded as a turning-point not only for GATT, but also for the world economy. It saw the abandonment of fixed exchange rates between the major currencies, the end of a long period of low-cost energy, and a cyclical peak in economic activity. The years since 1973 have been marked by disappointing economic growth world-wide; by severe payments difficulties for many countries, and particularly for developing countries which are not oil producers; by high unemployment levels; and by persistent inflation in both developed and developing countries. In developing countries, investment growth was maintained, but only at the cost of heavy borrowing and slower growth in their already-low consumption levels. In most industrialized countries, the share of national income devoted to consumption rose at the expense of growth in productive investment and of labour productivity. In consequence of these factors, there has been a general increase in uncertainty about economic prospects.

10. International trade could not fail to be influenced by these developments. Taken as a whole, its performance has continued to be fairly impressive: in the 1970's, as in the 1950's and 1960's, it has remained among the most dynamic elements of the world economy. The growth in the volume of trade, although sharply lower than in the previous decades, has remained above that of world production, and in consequence the importance of trade in each country's economic activity has continued to increase.

11. Established trends in the broad product composition of trade have in general been maintained. Trade in manufactures has remained the most important product category. Four fifths of exports of manufactures are still accounted for by industrialized countries, although the share of developing countries has risen slightly but consistently, reflecting in particular the success of a fairly small number of countries. The share of agricultural products in trade has continued to fall, and from more than 30 per cent in the early 1960's, and 20 per cent in the early 1970's, is now down to 15 per cent. Developments in services, the sector which now accounts for the largest share of employment in the industrialized countries, have also affected international trade: rapid technological progress has not only stimulated trade in services themselves, but has influenced the form in which many goods are traded.

12. A particular feature of trade in recent years has been the sustained demand for imports by developing countries. Financed by export earnings, external assistance, and significantly increased foreign borrowing, these imports have accounted for a rapidly growing share of total exports of the industrialized countries. The overall surplus of industrialized countries in their trade with oil-importing developing countries grew from \$4 billion in 1973 to \$12 billion in 1980; in manufactures, it grew in the same years from \$24 billion to \$60 billion.

Trends in the GATT system

13. In the face of the economic difficulties of the 1970's, the CONTRACTING PARTIES have remained committed to the framework of rights and obligations established under GATT, and have indeed elaborated and refined it in the multilateral trade negotiations. Nevertheless, there is cause for concern. A number of problems of long standing have not only persisted, but have shown signs of worsening. New problems have also appeared. Difficulties in arriving at agreed interpretations of the GATT rules are increasing, and instances are accumulating in which the GATT disciplines are evaded by resorting to policy measures that fall outside the General Agreement.

14. It is of course true that there have always been imperfections in the operation of the GATT rules. CONTRACTING PARTIES have differed over the application of key provisions, such as those on subsidies and on customs unions and free-trade areas. Some of the GATT provisions - for instance those stipulating the general elimination of quantitative restrictions - have never been fully applied. However, there now appears to be a widespread feeling that the problems have become more numerous and more acute than in the past, and that, if present trends continue, they could undermine the existence of an international trading system based on GATT rules and principles.

15. There are a number of sectors in which difficulties in international trade relations are particularly pronounced. Trade in agricultural products has been subject to widespread restrictions and distortion throughout the lifetime of GATT. Certain GATT rules have been applied with less force for agriculture than for manufactures, and efforts to achieve liberalization have been less successful in this area than in others. The countries that are highly dependent on agricultural exports have made the point with increasing force that they have not shared equally in the benefits flowing from the General Agreement. This may help to explain why, in recent months, the majority of trade disputes brought to GATT have concerned agricultural products, and why agricultural issues have become an increasing preoccupation of the Consultative Group of Eighteen.

16. A second area of long-standing difficulty is trade in textiles and clothing, which has encountered serious problems throughout the post-war period, and of which a large proportion has since the 1960's been regulated by special arrangements involving departure from the rules of GATT.

17. To these persistent problems, others have been added in recent years. Sectoral difficulties have been encountered in trade in steel, automobiles, shoes, consumer electronic products, and certain petrochemicals. Many of these have been handled through bilateral agreements or other actions falling outside the scope of the GATT rules; in particular, only limited use has been made of the safeguard procedures established by Article XIX of the General Agreement.

18. In an increasing number of instances, government actions, taken for domestic reasons, have had a distorting effect on international competition. This is of course a reflection of the greater integration of national economies. Actions have also been taken without full regard to the GATT procedures on notification and consultation, leading to uncertainty about the trade rules that apply, and to concerns over the implications of unilateral or bilaterally-agreed measures for trade flows from third countries. Some contracting parties have also come to feel that certain policy practices and areas of international trade are not adequately covered by existing GATT provisions.

19. A renewal of strong economic growth in the major industrialized economies might be expected to ease the pressures that have given rise to these difficulties. However, it could just as well be argued that a return to growth may depend to an important degree on action being taken to overcome the difficulties themselves. Their accumulation over a long period, even during the multilateral trade negotiations, when the broad thrust of international co-operation in GATT was in the direction of liberalization, must support the judgement of the Consultative Group of Eighteen that "trade relations are beset by a number of complex and potentially disruptive problems, reflecting growing protectionist pressures, and that there is a need for improved international co-operation to solve these problems".¹

20. Studies by the secretariat² have led it to argue that the economic root of most of the trade problems described lies in a failure of the domestic industries concerned to adjust adequately to changing market conditions, and that this reflects a general decline in flexibility in the economies of most industrialized countries. Whether the adjustment difficulties result from rapid technological innovation, from economic growth and change elsewhere, or from domestic policies may be debatable. It is, however, undeniable that the more and more frequent demands of industries that the normal adjustment process of the market be obstructed, through subsidies or import controls, have become a central problem for economic policy. Concern over the proliferation of government aids has led contracting parties to negotiate commitments in such areas as the use of subsidies. The realization that an accumulation of obstacles to prompt adjustment may hamper the growth of the world economy, and the full integration of developing countries into the international trading system, has also led governments to discuss the process of structural adjustment.

¹ Communiqué of 15th meeting of Consultative Group of Eighteen (see Appendix).

² See GATT Studies Nos. 4 ("Trading Liberalization, Protectionism and Interdependence") and 5 ("Adjustment, Trade and Growth in Developed and Developing Countries") and International Trade, annual issues from 1975 onwards, especially International Trade 1980/81.

21. The costs of a deterioration in international trading conditions are high for all contracting parties, particularly because of the investment-inhibiting uncertainty it produces. At a time of growing financial difficulty, this situation is of special concern to developing countries. Better and more secure access to export markets is important to their growth prospects, and hence also for their possibilities of providing markets for the exports of the industrialized countries.

22. A major element of uncertainty is the safeguards issue, still unresolved eight years after the Tokyo Declaration called for an examination of the adequacy of the multilateral safeguard system. In the continuing absence of agreement on this issue, bilateral ad hoc settlements are increasingly used, depriving contracting parties of the protection that general rules provide, and setting undesirable precedents. This, besides showing the urgent need to settle the safeguards issue itself, underlines the importance of efforts to maintain and improve the effectiveness of the GATT system in general.

Conclusion

23. The foregoing review supports the conclusion that there is need to provide an opportunity for those responsible for GATT at the political level to carry out a new stocktaking, so as to arrive at a common assessment of the situation and a shared commitment to an appropriate response to this situation by the CONTRACTING PARTIES. Such a stocktaking could also give a decisive stimulus to work in progress in GATT, and help to develop considered approaches to concerns which have already been identified and to tasks that lie ahead.

Appendix

COMMUNIQUE

FIFTEENTH MEETING OF THE CONSULTATIVE
GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its fifteenth meeting on 25 and 26 June 1981 in Geneva. The Chairman was Mr. Arthur Dunkel, Director-General of GATT.
2. The Group continued its discussion of the implications for the world trading system of the worldwide slow-down in economic activity and the trade tensions associated with it. It noted the continuing efforts of governments to resist protectionist pressures and to maintain liberal trade policies. Nevertheless some contracting parties had considered it necessary to introduce or intensify restrictive measures, and pressure for bilateral arrangements to regulate imports in specific sectors had grown. The Group noted that the trade and payments situation of many developing countries continued to give rise to concern and necessitated their fuller participation in world trade. In reviewing current and forthcoming negotiations in the GATT, the Group gave particular attention to the renegotiation of the Multifibre Arrangement.
3. The Group stressed the importance of a strong political commitment on the part of governments to the maintenance of liberal trade policies and the improvement of the multilateral trading system. They agreed that the conclusion of the Tokyo Round of multilateral trade negotiations had strengthened the framework for the conduct of international trade and that the highest priority should continue to be given to the effective and faithful implementation of the Tokyo Round agreements. The Group noted the continuing efforts to reach a satisfactory agreement on outstanding issues such as the use of safeguard measures. However, the Group also noted that trade relations are beset by a number of complex and potentially disruptive problems, reflecting growing protectionist pressures, and that there was a need for improved international co-operation to solve these problems. The Group agreed that it would be useful to consider at the political level the overall condition of the trading system. There was broad agreement that to this end it would be appropriate for the GATT Contracting Parties to envisage convening a ministerial meeting during 1982. Adequate preparation for such a meeting would be essential, and for this purpose an analysis would need to be carried out of the issues confronting the trading system and of the trends and problems likely to emerge in the 1980s. The Consultative Group of Eighteen intends to pursue its discussion at its next meeting, with a view to facilitating the task of the Contracting Parties.
4. The Group also continued its exchange of views on trends in international trade in agricultural products, and reviewed progress in the implementation of the results of the Tokyo Round negotiations.
5. The next meeting of the Consultative Group of Eighteen will take place on 14-16 October 1981.

ANNEX III
(CG.18/W/62)

PREPARATORY WORK FOR MINISTERIAL MEETINGS IN THE GATT

Note by the Secretariat

1. On 8 April 1956 the Executive Secretary addressed a letter to the contracting parties in which he suggested that as a regular procedure, beginning with the Eleventh Session, the first few days of the annual sessions should be devoted to an exchange of views at ministerial level.

2. This question was further discussed in the Intersessional Committee at its meetings in September and October 1956 and thereafter at the Eleventh Session itself (IC/SR.27 and 28, SR.11/17). The Chairman of the CONTRACTING PARTIES drew the conclusion from the discussion that in principle it would be advantageous if Trade Ministers were to attend sessions of the CONTRACTING PARTIES and that such meetings should be held early in the Session. The Intersessional Committee was instructed to arrange for a meeting of Ministers at the Twelfth Session and establish a suitable agenda for discussion by Ministers.

Twelfth Session, October 1957

3. The Intersessional Committee discussed the Ministerial Meeting at its meetings in August and September 1957 and decided on the timing and the proposed agenda for the Meeting (IC/SR.33, 34).

4. The Twelfth Session of the CONTRACTING PARTIES was held from 17 October to 30 November 1957, the Ministerial Meeting was held from 26-30 October and was chaired by the Chairman of the CONTRACTING PARTIES (SR.12/7-10).

5. The agenda for the Ministerial Meeting was as follows:

- (i) Progress in the expansion of international trade (reference "International Trade, 1956");
- (ii) Prospects for achieving further progress in the expansion of trade through international co-operation, particularly through GATT;
- (iii) Consideration of the principal items on the Twelfth Session agenda, such as the European Common Market, trends in commodity trade and machinery for international trade co-operation.

6. Statements were made by thirty-two Ministers or representatives of the contracting parties.

7. In concluding the Ministerial Meeting the Chairman pointed to the advantages of having such meetings on a regular basis, and stated that advance preparations should be made by the Intersessional Committee. In summing up he referred to some of the major issues of international trade that had emerged from the discussions including the question of the relationship of the Treaty of Rome, which had just been signed, and the GATT. At the end of the Ministerial Meeting a Committee was set up to examine the Rome Treaty.

8. Furthermore, the directives given by the Ministers led to the establishment of a Panel of Expert Economists to make an objective study of certain trends in international trade.

Thirteenth Session, October 1958

9. At its meeting in September 1958 the Intersessional Committee discussed the question of whether a meeting of Trade Ministers should be held during the Thirteenth Session. The Committee decided on the dates for the meeting at ministerial level, the holding of which would be conditional on a representative attendance of Ministers, numerically and geographically. The Committee also decided on the agenda, proposed by the Executive Secretary, to be recommended to the Ministers (IC/SR.41).

10. The Thirteenth Session of the CONTRACTING PARTIES was held from 16 October to 22 November 1958. During the opening days, from 16-18 October, a number of Ministers attended. The ministerial discussion was chaired by the Chairman of the CONTRACTING PARTIES (SR.13/1-5).

11. The agenda recommended by the Intersessional Committee (IC/SR.41) was as follows:

I. Trends in International Trade

For this topic the background documents would be the experts' report. This discussion would afford Ministers the opportunity of commenting upon the major problems dealt with in the report, viz. the conditions of trade in agricultural products, commodity problems, and special problems affecting the trade of the less-developed countries.

II. Future Activities of the Contracting Parties directed towards the Continued Expansion of International Trade

In this connexion Ministers might like to examine:

- A. Action directed towards further tariff reduction.
- B. Action directed towards the elimination of quantitative restrictions, and in particular of the remaining elements of discrimination. Here, Ministers might like to lay down directives or guiding lines for the conduct of the consultations which will take place in 1959.
- C. Other international measures directed towards the expansion of world trade, including the harmonization of regional and broader programmes.
- D. Means of improving the effectiveness of the General Agreement in contributing towards its objectives.

12. Statements were made by twenty-four Ministers or representatives of the contracting parties.

13. The three major points drawn from the Ministerial discussion were the proposal for a fresh round of negotiations to reduce tariff levels, the problems arising out of the widespread use of protective measures under national agricultural policies and the question of obstacles to the expansion of the export trade of under-developed countries. Subsequently, the CONTRACTING PARTIES agreed on the initiation of a co-ordinated programme of action relating to these three principal topics and established three Committees to lay down the action to be taken for the carrying out of the co-ordinated programme (W.13/39; SR.13/17).

Fifteenth Session, October 1959

14. At the Fourteenth Session of the CONTRACTING PARTIES, held in May 1959, the Chairman invited delegations to consider whether the CONTRACTING PARTIES should arrange for a meeting of Trade Ministers to be held during the Fifteenth Session in Tokyo. The CONTRACTING PARTIES discussed the agenda and decided that there should be a meeting of Ministers at the Fifteenth Session (SR.14/8, 10).

15. The Fifteenth Session of the CONTRACTING PARTIES was held in Tokyo from 26 October to 20 November 1959. The Ministerial Meeting was held from 27-29 October and was chaired by the Minister of Foreign Affairs of Japan (SR.15/2-6).

16. The agenda for the Ministerial Meeting, prepared during the Fourteenth Session (SR.14/10) was as follows:

1. Current trends in international trade (the discussions to be based upon International Trade 1957/58 and perspectives for international trade and commercial policy in the light of the restoration of external convertibility in the currencies of a number of contracting parties and of the fiscal and exchange reforms undertaken in others).
2. Progress in the implementation of the programme for trade expansion.
3. Programmes for economic integration through trade liberalization on a regional basis and harmonization of these programmes with the world-wide objectives of the GATT.
4. Consideration of the principal items on the agenda for the session.

17. Statements were made by thirty-six Ministers or representatives of the contracting parties. In his summing up the Chairman referred, inter alia, to the importance of pressing on with the GATT programme of trade expansion, initiated at the Thirteenth Session.

Nineteenth Session, 27-30 November 1961

18. At its meeting in March 1961 (C/M/5) the Council agreed to recommend to the CONTRACTING PARTIES that a Ministerial Meeting be held in the autumn of 1961, at or about the time of the Nineteenth Session.

19. The recommendation was submitted to contracting parties by postal ballot. A large majority responded in favour of the holding of such a meeting. The Council considered this question further at its meeting in May 1961 (C/M/6) and made specific recommendations as to the timing of the Meeting of Ministers and as to the main problems of international trade, which had been identified by the CONTRACTING PARTIES, and to which Ministers would be invited to address themselves. The Council also recommended that contracting parties be invited to submit suggestions as to specific points which might be considered by Ministers. At their Spring Session in May 1961 the CONTRACTING PARTIES approved the Council's recommendations (SR.18/4). In October 1961 (C/M/8) the Council drew up the draft agenda to be proposed to the Ministers as follows:

- A. Reduction of tariff barriers to trade
- B. Trade in agricultural products
- C. Obstacles to trade of less-developed countries.

In addition, specific points for discussion had been proposed by individual delegations:

- the future work of Committee II (New Zealand)
- duty-free entry for tropical products (Nigeria)
- prompt fulfilment of GATT obligations (Uruguay).

20. The Nineteenth Session was held from 13 November to 9 December 1961. The session was interrupted for the duration of the ministerial meeting from 27-30 November 1961. The ministerial meeting was chaired by the Chairman of the CONTRACTING PARTIES.

21. Present were forty-five Ministers or ministerial representatives of contracting parties and four Ministers from observer countries.

22. The Conclusions of the Meeting of Ministers adopted on 30 November 1961 are contained in the BISD 10S/25. The Ministers agreed on guidelines on the three main topics, which they forwarded to the CONTRACTING PARTIES; the Ministers adopted a Declaration on promotion of trade of less-developed countries, which also was communicated to the CONTRACTING PARTIES.

23. On 7 December 1961 the CONTRACTING PARTIES made the appropriate decisions for the implementation of the Conclusions of Ministers (BISD 10S/32) and adopted the Declaration on the Promotion of Trade of Less-Developed Countries (BISD 10S/28).

Ministerial Meeting, 16-21 May 1963

24. At their Twentieth Session in November 1962 the CONTRACTING PARTIES considered a proposal made jointly by the United States and Canada for the convening of a Meeting of Ministers early in 1963 (L/1891, SR.20/10). The proposal mentioned the recently enacted US Trade Expansion Act and referred to the desirability of having a Tariff Conference to begin in 1964. The proposal also referred to the questions of trade in agriculture, trade in tropical products and the needs of the less-developed countries.

25. The CONTRACTING PARTIES agreed that a Ministerial Meeting should be held at a date to be determined by the Council. The Council should also propose an agenda and make adequate preparations for the meeting.

26. The Council at its meeting of 19-21 February 1963 (C/M/14) initiated the preparatory work for the Meeting of Ministers and agreed to recommend that the Meeting of Ministers should give directions for the effective liberalization and expansion of trade in both primary and secondary products and should consider, inter alia:

- A. Arrangements for the reduction or elimination of tariffs and other barriers to trade, and related matters;
- B. Measures for access to markets for agricultural and other primary products;
- C. Measures for the expansion of the trade of developing countries as a means of furthering their economic development.

Extensive preparatory work was carried out by the Working Party on Procedures for Tariff Reduction, the Special Group on Trade in Tropical Products, and Committee III of the Trade Expansion Programme. The reports of these three groups were considered by the Council at its meeting of 25 April-1 May 1963 (C/M/15).

27. The agenda proposed by the Council also contained a number of specific points of the Action Programme submitted by less-developed countries on measures for the expansion of trade of developing countries.

28. The Meeting of Ministers was held from 16-21 May 1963. The meeting was attended by fifty-four Ministers or ministerial representatives of the contracting parties and by twenty-five representatives, including two ministerial representatives, of observer countries.

29. The text of the Conclusions and Resolutions adopted on 21 May 1963 is contained in the BISD 12S/36. The Conclusions relate to the Programme of Action sponsored by developing countries, to trade in tropical products, to the establishment of an Action Committee, to arrangements for the reduction of tariffs and measures for access to markets for agricultural products, including the establishment of a Trade Negotiations Committee.

Meeting of the Trade Negotiations Committee at Ministerial Level, 4-6 May 1964

30. In order to mark the formal opening of the trade negotiations the TNC agreed in April 1964 (TN.64/SR.4) that the Committee would have a meeting at ministerial level from 4-6 May 1964.

31. The text of the Resolution adopted on 6 May 1964 is contained in the BISD 13S/109. The Resolution sets guidelines and directives for the pursuit of the negotiations.

Twenty-Fourth Session, November 1967

32. In August 1967 the Director-General addressed an airgram to all contracting parties in which he stated that it would seem most appropriate that Trade Ministers should again meet briefly during the twenty-fourth Session of the CONTRACTING PARTIES to survey the principal trade problems

still requiring further international consultation following the conclusion of the Kennedy Round, and in the light of this survey to lay down policy guidelines for the future work of the CONTRACTING PARTIES.

33. Several contracting parties responded favourably to the Director-General's suggestion.

34. The Session was held from 9-24 November 1967. The last three days of the session were devoted to a review of the work of the CONTRACTING PARTIES through the last two decades and to consideration of the programme for the future. No specific preparatory work was carried out. The session was attended by twenty Ministers or ministerial representatives of the contracting parties and forty-seven representatives of the contracting parties. Seventeen governments were represented by observers.

Ministerial Meeting, Tokyo, September 1973

35. At their Twenty-Eighth session the CONTRACTING PARTIES reaffirmed their intention to initiate multilateral trade negotiations in 1973 in the framework of GATT. It was agreed that in preparation for the negotiations a Preparatory Committee should be established, its membership to be open to all contracting parties and developing countries not contracting parties wishing to participate in the preparatory work (BISD 19S/12). The Preparatory Committee met during the first half of 1973 and submitted a report and a draft declaration to the Ministerial Meeting.

36. The Ministerial Meeting was held from 12-14 September 1973. It was chaired by the Minister for Foreign Affairs of Japan. Ministers or ministerial representatives of seventy-one contracting parties and of thirty-one developing countries non-contracting parties attended the meeting. The Ministers adopted the Tokyo Declaration which served as the formal beginning of the multilateral trade negotiations (BISD 20S/19).

Conclusion

37. So far, eight ministerial meetings have been held. The first four meetings in 1957, 1958, 1959 and 1961 and the meeting in 1967 were held as part of or in connexion with the annual sessions of the CONTRACTING PARTIES. The three meetings in 1963, 1964 and 1973 were held separately. The preparatory work was carried out by the Intersessional Committee and the Council, but more specific questions, such as those relating to tariff reduction, tropical products, trade with developing countries, access to markets for agricultural products, etc., were prepared in existing bodies. At all meetings observers to sessions of the CONTRACTING PARTIES were invited, with the exception of the 1964 meeting, which was a meeting of the Trade Negotiations Committee at ministerial level. For the Tokyo meeting, invitations were also addressed to those developing countries not contracting parties, which so far had not requested observer status with the CONTRACTING PARTIES. Especially in 1963 and in 1973 a great number of non-contracting parties were represented by observers, sometimes at ministerial level.