

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/5387

22 October 1982

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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/5210 of 23 October 1981) the Consultative Group of Eighteen has held four meetings, on 10-12 February, 4-7 May, 7-9 July and 6-8 October 1982.
4. The subjects discussed at these meetings were as follows:
 - I. The current economic situation and its implications for trade policies (February meeting);
 - II. The contribution of the Consultative Group of Eighteen to the preparation of the Ministerial meeting in November 1982 (all meetings);
 - III. Co-operation on agriculture in the GATT (February, May and July meetings; agriculture was treated under Item II in October).
- I. The current economic situation and its implications for trade policies
5. At its February meeting the Group had before it a secretariat note as a basis for discussion of this subject (CG.18/W/66). This note examined the performance of the world economy in 1981 and drew attention to an apparent increase in trade conflicts, sectoral crises and protectionist measures, and to their consequences for world trade and for the trading system. It also pointed to the severe and growing strains on the financial system.
6. Most members agreed with the secretariat's analysis of the causes of the extremely disappointing performance of the world economy in 1981, but attention was drawn to certain factors not stressed by the secretariat,

including currency instability, high interest rates and the rise in the cost of energy. Some members also thought the secretariat had exaggerated the spread of protectionism and the loss of confidence resulting from it. It was, however, generally held that a decline in respect for GATT rules and an increase in discriminatory restrictive measures, whether or not they were bilaterally agreed, must increase uncertainty with consequential effects on investment and trade. Several members stressed the importance of restoring confidence in the open trading system and it was suggested that increased transparency and an improvement in the effectiveness of dispute settlement procedures would be essential for this.

7. Concern was expressed about the decline in the export earnings of developing countries, which was particularly serious in view of the increase in these countries' overseas borrowing, which for developing countries as a whole reached \$400 billion in 1981. Some members foresaw a serious shortage of international credit, which would further restrict the development and import potential of developing countries.

8. The Group noted the relevance of the forthcoming Ministerial meeting to the problem of confidence in the stability of the economic and trading system. The point was made that the malfunctioning of the economic system was the result of bad management, not of uncontrollable external forces and that, given the necessary political will, governments had the power to reverse the trend.

II. The contribution of the Consultative Group of Eighteen to the preparation of the Ministerial meeting in November 1982

9. This subject was discussed at all four of the Group's meetings in 1982. It was agreed at the outset that the views of the Group should be made known to the Preparatory Committee. All reports of the discussions in the February, May and July meetings have accordingly been circulated, in the context of the Preparatory Committee, to all members of the Council (in documents Spec(82)18, Spec(82)50 and CG.18/19 respectively). These discussions are therefore summarized very briefly in the present report. At each meeting the Group heard a statement by the Chairman of the Preparatory Committee on the current state of the Committee's work. All documents circulated to the Preparatory Committee were also made available to the Group as background information. At its July and October meetings the Chairman of the Council reported on the informal consultations being held under his chairmanship on the question of dispute settlement.

10. Discussion in the February meeting was concerned largely with the general objectives of the Ministerial meeting, with the criteria which should govern the selection of subjects which should figure in the Ministerial Declaration and with the rôle of developing countries in the trading system. Reference was also made to other specific subjects, including safeguards, agriculture, and trade in services.

11. At the May meeting discussion was concentrated on four main areas of concern: safeguards, dispute settlement, subsidies and questions relating to developing countries. The question of trade restrictions applied for non-economic reasons was also raised.

12. Safeguards, dispute settlement and subsidies were also discussed in detail in the July meeting, together with the question of how an agreed diagnosis of the state of the trading system should be presented in Part I of the Ministerial Declaration. There was also an extended discussion of the Australian Government's "proposals for an initiative on protectionism", the text of which has been issued as PREP.COM/W/21.

13. The Group's October meeting is reported in full in CG.18/20, which is also circulated to members of the Preparatory Committee and the Council. At this meeting the Group recognized that, as a result of the recent deterioration in the economic situation and in trade relations, it had become more than ever necessary for the Ministerial meeting to demonstrate the ability and will of governments to co-operate in overcoming the threat to the trading system. At the same time, and for the same reasons, it had become more difficult to do so.

14. In the discussion on the political declaration attention was concentrated on the proposal to agree on a standstill on protectionist measures of all kinds, plus a roll-back of existing levels of protection. A number of speakers saw merit in this proposal as a serious response to a grave situation, but the view was also expressed that unrealistic expectations would lead to disappointment and disillusion.

15. The issue of safeguards was discussed in the light of the informal consultations being held with a view to agreement on a comprehensive solution to a problem which the Group agreed was basic to the health of the trading system. Some members were ready to contemplate consensual selectivity, subject to multilateral discipline and surveillance, as a means of bringing "grey area" measures under control. Others opposed departure from the m.f.n. principle as a step towards legalizing discrimination.

16. The Group welcomed a report by the Chairman of the Council on his consultations on the matter of dispute settlement, notification and surveillance. Members stressed the need for speedy and certain resolution of disputes, and for readiness on the part of governments to abide by Panel findings and Council recommendations.

17. Relations between developing and developed countries were discussed in detail, with special reference to the gravity of the economic situation now faced by many developing countries. The point was made that developing countries were looking for progress at the Ministerial meeting not merely in areas of specific interest to them such as tropical products, trade in textiles, and tariff escalation, but also in the reinforcement of the multilateral framework, notably through the full observance of existing

commitments in particular those contained in Part IV of the General Agreement and in the Enabling Clause. The commitment to special and differential treatment of developing countries was frequently stressed. One speaker said that the Ministerial agenda must offer attractions for all participants, or it would be impossible to make progress overall. Differing views were expressed on a proposal to explore possible modalities for negotiations between developed and developing countries, aimed at increasing on both sides the contractual element in trade concessions. Some speakers saw this as a means of stimulating trade in both directions by increasing and safeguarding access to markets, while others found the proposal unrealistic and inopportune, given the economic situation of many developing countries and the general imbalance in their commerce with the industrialized world.

III. Co-operation on agriculture in the GATT

18. At its meeting of February, the Group had before it a revised secretariat note (CG.18/W/59/Rev.1) analysing the rules of the GATT, including the Codes, as they applied to agriculture. The paper indicated where the treatment of agriculture was different as regards the text and spirit of the General Agreement, while also noting that problems of observance, interpretation and transparency existed as well in the industrial sector. The following issues, inter alia, were referred to by members: the need for full respect of GATT rules, the specificity of the agricultural sector, the need to examine export assistance, market access and domestic agricultural policies, and the need to address measures which were not dealt with adequately in the GATT. The Group, as the sole organ in the GATT where agriculture could be dealt with in a general and global manner, recognized the obligation to make a contribution to the preparation of the Ministerial session as regards agriculture.

19. As agreed by the Group the secretariat prepared for the May meeting, under its own responsibility, a paper entitled "Co-operation on Agriculture in the GATT" (CG.18/W/68), which highlighted certain weaknesses in the functioning of international co-operation in the agricultural sector and provided some suggestions for improvements to the GATT system as it applied to agriculture. Members were unanimous in considering that agriculture should figure prominently on the Ministerial agenda. Some members felt that the end-result of the group's deliberations should be an action-oriented programme to deal with the agricultural problems identified and to integrate agriculture fully in the multilateral trading framework. However, another view was that the agricultural sector had to be approached from the angle of what was practically feasible, given that the special rules on agriculture had been developed in order to respond to the objectives of national agricultural policies. It was agreed that the minutes of the Group's discussion on co-operation on agriculture in the GATT (Spec(82)50) would be transmitted to the Preparatory Committee for information along with the two documents CG.18/W/59/Rev.1 and CG.18/W/68.

20. The secretariat was asked to work on the elaboration of a draft work programme on agriculture, in consultation with interested delegations, and to present the draft at the Group's meeting in July. Pursuant to informal consultations with interested delegations, the secretariat concluded that it would be premature to issue an elaborated text for an agricultural work programme in advance of the Group's July meeting. Instead, the secretariat circulated in document CG.18/W/70 a check-list of items, all or some of which might eventually form the basis of a work programme. The discussions at the July meeting permitted some clarification of the positions of members of the Group. However, it was not possible at the meeting to arrive at a consensus on the content of a work programme. It was noted that informal consultations would continue on the matter and that agriculture would remain on the agenda of the Consultative Group of Eighteen as well as the Preparatory Committee. The Group agreed that the minutes of its discussion on agriculture would be transmitted to the Preparatory Committee for information (CG.18/19).

21. In October, agriculture was discussed not as a separate agenda item but as one element in the preparations for the Ministerial meeting. The Group noted that there appeared to be emerging a consensus on the need to rationalize and render more transparent notifications on measures which affect market conditions and competition in trade in agricultural products. However, it was not yet clear what consensus could be reached on a number of other questions that might form part of an agricultural work programme; for example, the need to establish an agriculture committee, the nature of the commitment by contracting parties to make further progress towards liberalization, and, the possibility for improving disciplines on export subsidies direct and indirect. Following the Group's discussion, the minutes of which it was agreed should be transmitted to the Preparatory Committee for information (CG.18/20), the Chairman suggested that delegations reflect more on a work programme for agriculture and pursue informal discussions in this regard.