

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONSULTATIVE GROUP OF EIGHTEEN REPORT TO THE COUNCIL OF REPRESENTATIVES

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/5572), the Consultative Group of Eighteen has held three meetings, on 4-6 April, 5-6 July and 25-26 October 1984.
4. The subjects discussed at these meetings were as follows:
 - I Subsidies in GATT (April meeting);
 - II Trade Policy and the International Financial System (April meeting);
 - III The Status of the Ministerial Work Programme (July and October meetings);
 - IV Structural Adjustment and Trade Policy (July meeting);
 - V Countertrade (July meeting).
- I Subsidies in GATT
5. The Group had before it a secretariat document (CG.18/W/79) which considered the economic and political implications of the marked rise in public subsidies since the beginning of the 1970s. It posed the question whether the proliferation of subsidies, and the disputes to which they have given rise, are simply a reflection of the economic pressures resulting from the recession or whether they are related in part to imperfections in the provisions dealing with subsidies and related measures in the GATT and the Subsidies Code.
6. The Group's discussion demonstrated widespread concern about the growth and abuse of subsidies, and a general view that they should not be allowed to distort international competition. The essential task of the GATT was to avoid the development of a

situation in which world trade would be conducted on the basis of competitive subsidization rather than in response to normal market forces. The close relationship between this subject and other areas of work in GATT, notably agriculture and structural adjustment, was recognized. There was a general view that existing rules on subsidies, whether in the GATT or in the Subsidies Code, were not working altogether satisfactorily, but it was not clear whether this was due to deficiencies in the rules or in their implementation. Contracting parties should be encouraged to make proper use of existing rules, and if there were areas of imprecision and misunderstanding, to cooperate in clarifying them. The relationship between domestic and export subsidies was generally agreed to be such an area. It was agreed that further efforts should be made to improve transparency in the use of subsidies.

II Trade Policy and the International Financial System

7. This subject was discussed on the basis of a report made by the Chairman of the Balance of Payments Committee to the Council (C/125). This reflected the results of his consultations on ways in which the Balance of Payments Committee could deal with matters relating to the linkage between trade policy and international financial problems. The Group also received an oral report from its Chairman on his discussions with the Managing Director of the International Monetary Fund and the President of the World Bank, in which he had been guided by the Group's earlier discussions on the question, and had underlined in particular the strong view of the CG.18 that trade problems and trade negotiations should be dealt with under the aegis of the GATT and in conformity with the basic principles of the GATT.

8. The suggestions made by the Chairman of the Balance of Payments Committee in his report to the Council were widely endorsed, and there was also strong support for the strengthening of the rôle of the Committee in highlighting external factors which adversely affect the exports, and thus the balance of payments position, of consulting countries.

9. The point was made, and generally accepted, that developed countries have a responsibility to liberalize access to their markets for exports from developing countries, not only to enable them to repay their debts but also to sustain the process of economic development. On the other hand, however, it was stated that the ability to maintain such a positive attitude depended in part on the readiness of the developing countries themselves to maintain relatively liberal trade policies and to enlarge trade opportunities for their partners. It was also noted that the present financial crisis was the result of a number of trends and factors. Thus the impact of large budget deficits and high interest rates on the debt burden of developing countries was underlined.

10. The Group supported the line taken by the Director-General in contacts between the GATT secretariat and the secretariats of the World Bank and the International Monetary Fund, which were based on the belief that it would be helpful to sensitize the "constituencies" of the three institutions to the linkages between the subjects which are their primary concern, while respecting their different fields of competence.

III The Status of the Ministerial Work Programme

11. At its July and October meetings the Group considered the state of the ministerial Work Programme, on the basis of itemized reports by the secretariat (CG.18/W/81 and 85). These have been circulated to all contracting parties. The purpose of discussion of the Work Programme in the Group was to provide an opportunity for an overall view of progress in implementing the Work Programme and to encourage the involvement and cooperation of the senior trade policy officials attending the Group's meetings in the furtherance of the Work Programme. Members were invited to consider firstly what measures could be taken to accelerate the implementation of the Work Programme in the run up to the November Session and secondly what outcome should be expected from the Session, notably in terms of the organization of further work.

12. At both meetings there was widespread concern that in many areas the pace of work was disappointingly slow and that overall there should be a greater sense of shared commitment to the strengthening of the GATT system. The relationship between the Work Programme and the organization of further work in the GATT was recognized, even if it was seen from two different viewpoints. Some members stressed the fact that many of the subjects in the Work Programme could only be brought to fruition in a negotiating context and that to this extent the Work Programme itself should be seen as a process of preparation for negotiation. Other members, while some of them acknowledged a natural continuum between the Work Programme and multilateral negotiations, pointed out that the commitment of many contracting parties to a negotiating process would depend on their being satisfied that the Work Programme, and the political declaration which accompanied it, had been implemented in good faith and in full by the industrialized countries. It was only in this way that an eventual new round of negotiations could show promise of concrete benefits for all participants. These members recalled the statement on the implementation of the Work Programme made on behalf of developing contracting parties at the May Council meeting. The distinction between commitments already accepted in the Ministerial Declaration, notably in paragraph 7(i), and the further commitments which might flow from the Work Programme, was underlined.

13. Great concern was expressed by a number of members about what they saw as the danger of paralysis of the GATT system through failure to appreciate the need of all contracting parties to perceive demonstrable benefits, both immediate and for the longer

term, from their participation in the GATT contract. In particular, it was feared that the power of initiative in trade policy would pass outside the GATT, and thus outside the contractual framework, unless the will and ability to act in concert could be demonstrated. There was full agreement that maximum efforts must be made to achieve the greatest possible progress in the implementation of the Work Programme in time for the 1984 Session of CONTRACTING PARTIES, and thus make possible a positive and forward-looking outcome from the Session.

14. The Group also discussed a number of specific items in the Work Programme, including safeguards, structural adjustment, quantitative restrictions, textiles, agriculture, services, and trade in counterfeit goods. These discussions are not reported in detail here since talks on all these subjects are continuing. On dispute settlement, which the Group also discussed, it received a proposal by a number of delegations relating to improvements in existing procedures for the appointment of panels, and it was agreed that this should be forwarded to the Council by the Director-General. The Group heard statements from some members on short-term measures of liberalization which they hoped to be able to introduce in the fields of tariffs, tropical products and quantitative restrictions.

IV Structural Adjustment and Trade Policy

15. At the request of members, the secretariat had prepared a document (CG.18/W/83) which posed the question whether, and how, operational significance could be given, in the GATT context, to the perception that structural adjustment policies can profoundly affect trade and trade relations. The Group generally agreed on the vital rôle of structural adjustment in promoting efficiency and growth, and on the close relationship between open trade policies and flexibility in domestic economies. It was also agreed that the adjustment process was linked to the contractual relationships between contracting parties in such matters as subsidies, quantitative restrictions and particularly safeguards. There were differences of view, however, as to whether GATT could have an operational rôle in relation to adjustment policies. Some members saw scope for a surveillance function, or at least for the exchange of information on such policies, while others cautioned against any attempt to involve the GATT in questions of industrial and macro-economic policy, which might be seen as infringing national sovereignty.

16. At the October meeting the Group was informed that one contracting party would be submitting to the Council new terms of reference for the working party on structural adjustment.

V Countertrade

17. A study had been prepared by the secretariat, at the request of members, on the economics of countertrade and the possible relevance to it of GATT rules. There was general agreement that countertrade or barter had proliferated in recent years, and some members deplored this as a movement towards bilateralism and towards primitive, expensive and discriminatory business methods. The point was made that countertrade required or mandated by governments was incompatible with the obligation of all contracting parties to maintain a multilateral system based on GATT rules. On the other hand, some members pointed out that countertrade might be unavoidable where there was no other means of financing transactions and could therefore be expected to proliferate in a situation of extreme payments imbalances. Protectionist policies might also make recourse to countertrade necessary.