

GENERAL AGREEMENT ON TARIFFS AND TRADE

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AUSTRALIAN OBJECTIVES FOR A NEW ROUND OF TRADE NEGOTIATIONS

The following communication, dated 9 July 1985, has been received from the delegation of Australia with the request that it be circulated to all contracting parties.

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1. Australia strongly supports a new round of Multilateral Trade Negotiations that will be directed at effective solutions to the major obstacles that restrict and distort world trade. The new round should be aimed at finding multilateral solutions to these problems and needs to address the issues that restrict the trade of all countries, developed and developing alike.
 2. Previous rounds of multilateral trade negotiations have principally achieved a reduction in tariffs on industrial products to the benefit mainly of the major industrial countries. The issues of non-tariff measures generally - agriculture, tropical products, safeguards, textiles, tariff escalation on products processed from raw materials of interest to the smaller industrial countries and the developing countries - were left largely unsolved or inadequately dealt with.
 3. Reluctance to confront the barriers to trade outside the narrow area of industrial tariffs has contributed to the "New Protectionism". Various trade restricting measures, frequently outside the disciplines of the GATT, have been increasingly applied to insulate the major industrial countries in particular from competition, sometimes replacing tariffs reduced in previous rounds of negotiations. This is denying the benefits of comparative advantage to CP's to the detriment of the multilateral world trading system and eventually to the living standards of all participating countries.
 4. There are also concerns about the functioning of the exchange rate system and, in particular, the consequences of sustained misalignment of major currencies for patterns of trade and industrial structure. There are linkages between activity in the fields of international trade reform and international monetary co-operation and discussion of international monetary issues has been going on, appropriately, in other fora. However, important as such linkages might be, developments in respect of international monetary matters should not be regarded as a precondition for progress on a new GATT round of multilateral trade negotiations.

5. It is clear that the objectives of the General Agreement are not being achieved. The drift away from the GATT rules, which has accelerated since the conclusion of the Tokyo Round of multilateral trade negotiations, has been accompanied by an increasing trend toward the settlement of trade disputes through bilateral deals and has now reached a point at which the effective continuation of the multilateral trading system is threatened. This in turn is acting as a major impediment to achieving sustained economic growth.

6. Not only are the rules no longer being respected but experience over the years has shown that the rules themselves are in some respects deficient. The rules relating to export subsidies on agricultural products, for example, have not been able to prevent the practice of export subsidisation growing to an extent that is inconsistent with the objectives and principles of the General Agreement. World markets for dairy products, beef, wheat and sugar are now dominated by subsidised exports.

7. Massive trade distortions and restrictions have been introduced into the world trading system. "Grey area" safeguard measures such as VERs and OMAs outside the disciplines of the GATT, the plethora of measures such as minimum import prices, variable import levies, discretionary import arrangements restricting trade in agriculture and the maintenance of QR's and a variety of other NTMs restrict almost half of world trade. Also subsidies both on domestic production and exports further distort world trade and are symptoms of the breakdown in respect for the GATT rules and in some cases by deficiencies in those rules.

8. The 1982 GATT Ministerial Declaration has done little to arrest the drift to the new protectionism. Despite the undertaking in the Declaration that CPs would "refrain from taking or maintaining any measures inconsistent with GATT and make determined efforts to avoid measures which would limit or distort international trade", little has been done to make this "standstill" undertaking effective and protectionism has continued to increase. Furthermore overall progress has been at best marginal in achieving the specific objectives set out in the Work Program flowing from the Declaration in areas such as safeguards, agriculture, QR's and other NTMs, tariff escalation, textiles, and tropical products.

9. Australia accepts that many of these issues are probably capable of final resolution only in the context of actual negotiations, which assure a climate of mutual commitment. The proposed round provides the opportunity to address these problems in a substantive way.

10. It is critical therefore that the issues currently providing the major restrictions and distortions on world trade, which have not been successfully dealt with in past rounds of negotiation, be approached in this round with a firm commitment from CPs to reach solutions. This will require all participating countries to approach this round with a genuine commitment to trade liberalisation of benefit to both developed and developing countries. Such an approach should build on the measures of liberalisation undertaken by CPs within the ambit of the 1982 GATT Ministerial Work Program prior to the commencement of actual multilateral negotiations, particularly if the countries concerned are prepared to enter into binding commitments on these measures.

11. Lasting solutions will require a readiness not only to reconfirm CPs' commitments to the rules and where necessary to negotiate improvements to the rules but also for CPs to be prepared to apply the rules in a way which provides real liberalisation and reductions to trade distorting practices.

12. Trade liberalisation which benefits all CPs must be a fundamental goal of the new round. Ultimately its success or otherwise will be judged by the achievement of this goal.

13. The particular interests and circumstances of developing countries must be addressed in any new round of trade negotiations with the liberalisation of trade in textiles and clothing and tropical products being key priorities. Australia continues to support a regime for special and preferential treatment for developing countries. There are issues, however, where we believe that the maximum benefit to all countries developed and developing alike will be realised by seeking multilateral solutions to them in a new round. These issues would include safeguards, QRs and other NTMs, agriculture and a reduction in the incidence of tariff escalation.

14. Australia is of the view that priority should be given to reducing barriers and distortions to trade in goods. However it has been proposed by some countries that the negotiations should also address new issues such as the barriers to trade in services. While services are not currently covered by the GATT, Australia agrees that this is a subject which can appropriately be included on the agenda for the next round considering that trade in services accounts for about 25 per cent of the value of total world trade. However in view of the need to develop a clear understanding of the obstacles which impede trade in services and the scope for negotiating on the liberalisation of these barriers, negotiations on services might best be handled separately from negotiations on other issues and in a manner designed to ensure continued close attention to these latter issues.

15. The next round of trade negotiations should also provide the opportunity to further enhance the "review" functions of the GATT. Efforts were made in the Tokyo Round with the conclusion of an "Understanding Regarding Notification, Consultation, Dispute Settlement and Surveillance". In practice however the Understanding has not materially improved CPs' observance of GATT rules. Recommendations for further strengthening the surveillance function of the GATT, including the possibility of regular Ministerial level sessions of the GATT, are contained in the recent report "Trade Policies for a Better Future" prepared for the Director-General of the GATT. These recommendations would provide the focus of discussion on enhanced review procedures in the negotiations.

16. The key issues from Australia's viewpoint to be addressed in the context of a new round are considered under the following headings:

Standstill

17. Action is needed by all countries to halt new protective measures, including non-tariff measures, that are not in conformity with the GATT. This should cover trade in agricultural as well as manufactured products. Australia would see such action extending to trade distorting measures, so as to freeze them at existing levels. An effective standstill on new protective measures would demonstrate countries' determination to halt the increase of protection and pursue real trade liberalisation in the context of the proposed negotiations.

Safeguards

18. A comprehensive understanding is required which will bring the operation of all safeguard measures back into conformity with the GATT rules. This will require the elimination of discriminatory "grey area" measures which have proliferated in recent years and which represent a major departure from the MFN rule of the GATT. If an open world trading system is to be maintained, there needs to be a return to the principles of GATT Article XIX in the exercise of safeguard measures, with proper recognition of the principles of transparency, injury, MFN application, emergency/temporary nature, consultation, and right of compensation/retaliation. It is important that safeguard measures should not be seen as a way of importing countries avoiding structural adjustment. To do so places a major obstacle in the path of the multilateral trading system and introduces a major impediment to the operation of competitive forces in world trade.

Agriculture

19. The rules of the GATT have never been effectively applied to agricultural trade. In some cases the rules have been specifically watered down to give recognition to "special factors" supposedly existing in agriculture e.g. Article XI (quantitative restrictions) and XVI (export subsidies). However, even these watered down rules have not been fully applied or have proven incapable of practical application. New arrangements are therefore required to bring agriculture fully into the GATT system and allow comparative advantage, in accordance with the principles of the GATT, to apply more fully. Currently agricultural trade is so hedged with restrictions, administrative guidance, and distortions that the major beneficiaries are increasingly the least efficient producers with the result that efficient producers and exporters are being denied reasonable access to markets and reasonable returns. This situation is an obvious denial of basic economic rationality and the objectives of the GATT and, unless these issues are addressed, a new round cannot be successful.

Non-Tariff Trade Measures

20. QRs and other NTMs now constitute more significant restrictions on world trade than tariffs. World trade in certain sectors such as textiles, clothing and footwear, passenger motor vehicles, and steel is now almost completely managed through a variety of non-tariff measures, including quantitative restrictions and export restraints. The use of such trade restricting measures is also increasing in other sectors of world trade both in manufactured products and agriculture.

21. The 1982 GATT Ministerial Meeting established a working group within the GATT to review non-tariff measures with a view to (a) the elimination of quantitative restrictions which are not in conformity with the GATT and (b) liberalising other QR's and NTMs. The elimination of QR's which are not in conformity with the GATT is a matter which each Contracting Party should proceed with, preferably in advance of a new round. The liberalisation of other QR's and NTMs is a key general issue for the new round and commitment to this process by all participating countries will be essential in achieving meaningful liberalisation of trade in the context of a new round of negotiations.

Subsidies

22. The basic article of the GATT dealing with subsidies (Article XVI) has proved ineffective. So too has the Agreement on Interpretation and Application of Articles VI, XVI and XXIII (Subsidies Code). The main problem

is the imbalance in the provisions of Article XVI which proscribe subsidies on the export of manufactured products but permit them on the export of agricultural products, subject to the provision that they must not result in "more than equitable share of world trade" being obtained. Furthermore there is no effective limitation on the operation of domestic production subsidies (despite their obvious capacity to distort world trade) apart from an obligation to notify and consult if "serious prejudice" to another Contracting Party is caused or threatened. More effective rules on subsidies aimed at reducing their distorting influence on world trade must be a key objective for the new round.

Tariffs

23. While the average level of tariffs in the major industrial countries has been reduced from around 40 per cent ad valorem to about 6-8 per cent ad valorem in previous rounds of multilateral trade negotiations since the late 1940s, tariff peaks on certain sensitive industries in these countries still remain at relatively high levels. In addition tariffs remain at high levels and/or remain unbound in a number of other countries, developed and developing alike. Therefore while the major focus of the next round needs to be on non-tariff measures there will also be scope to address remaining tariff issues. A particular problem in this respect is the issue of tariff escalation on the various stages of processing from the raw materials stage. This is a problem which both restricts trade and inhibits the development of processing industries in raw materials exporting countries.

Dispute Settlement

24. Related to the problem of the application and strengthening of the GATT rules for the benefit of the operation of the multilateral trading system is the issue of effective dispute settlement procedures in the GATT. Practical experience since the conclusion of the Tokyo Round has shown that the current dispute settlement procedures are not functioning effectively, despite efforts made in those negotiations to improve the procedures. Australia supports the adoption of more effective dispute settlement procedures in relation to such aspects as the time taken to form panels and hear cases; the need for clear recommendations for corrective action; and effective enforcement procedures.

Conclusion

25. Against this background Australia considers that a decision should be taken by the GATT Council to convene a meeting of senior officials in September 1985 to bring forward recommendations by the end of March 1986 on the coverage, timing, organisation and objectives of a new round of multilateral trade negotiations.

26. Australia considers that a new round of trade negotiations should be of strictly limited duration in terms of its preparatory and substantive phases. To this end and given the urgency of the problems facing the trading system outlined in this Submission, Australia believes a new round to address the issues outlined above should begin in mid 1986 and be completed at least before the end of 1988.

27. As to modalities, Australia believes all countries should be able to participate in negotiations within a framework of mutual commitment and favours the establishment of appropriate arrangements in the GATT to facilitate and supervise the negotiations and to monitor progress towards the attainment of the objectives of a new round. Australia also believes that arrangements to involve Ministers in the oversight and guidance of the negotiating process, including the preparatory phase, would be important and would greatly assist in ensuring the success and timely completion of the new round.

28. Australia firmly supports a broad based approach and a balanced outcome which is mutually reinforcing; and to this end will consider seriously all requests from its trading partners for trade improvements and reductions in distortions in a new round of trade negotiations.