

SENIOR OFFICIALS' GROUP

Record of Discussions

Note by the Secretariat

1. The Group of Senior Officials, established by the Decision of 2 October of the CONTRACTING PARTIES (L/5876), instructed the secretariat to issue summary records of the Group's discussions.

2. At the meeting of the Group on 12 November, the Chairman stated his understanding that the record would cover only substantive discussions, and noted that most of the Group's discussions after the meeting of 1 November had covered points of procedure.

3. These summary records are accordingly being issued by the secretariat under the symbol SR.SOG/- as follows:

SR.SOG/1	14 October	SR.SOG/7	30 October (first part)
SR.SOG/2	15 October	SR.SOG/8	30 October (second part)
SR.SOG/3	16 October	SR.SOG/9	31 October (first part)
SR.SOG/4	22 October	SR.SOG/10	31 October (second part)
SR.SOG/5	23 October (first part)	SR.SOG/11	1 November (first part)
SR.SOG/6	23 October (second part)	SR.SOG/12	1 November (second part)

Substantive points made at the meeting of 8 November will be included in SR.SOG/11.

4. During the discussions, a number of delegations referred to explanations of their positions given in written communications and statements with regard to the proposed new round of multilateral trade negotiations. Reference was also made to relevant statements in the Council debates on 5-6 June and 17-19 July 1985 (C/M/190 and C/M/191, respectively) and in the special Session of the CONTRACTING PARTIES held on 30 September - 2 October 1985 (4SS/SR/1-5).

5. Some delegations stated in the Group that they had frequently refrained from intervening in the discussions because they felt that their positions had been adequately set out in the communications, statements and records referred to in paragraph 4 above, or had been expressed by another delegation, or because they had reserved their right to revert to some of these matters at a later stage in the preparatory process.

6. Two copies of these summary records will be issued to each contracting party. Further copies will be available on request.

¹These communications and statements are: Developing countries L/5647 and L/5744, 24 Developing countries L/5818 and Add.1, ASEAN countries L/5848, Australia L/5842, Austria L/5849, Brazil L/5852, Canada L/5834 and L/5836, Chile L/5850, EFTA countries L/5804, European Communities L/5835, Jamaica (informal paper circulated to the Group), Japan L/5833, Korea L/5851, New Zealand L/5831, Nordic countries L/5827, Switzerland L/5837 and L/5883 (originally issued as Spec(85)52), United States L/5838 and L/5846.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR./SOG/8

22 November 1985

Special Distribution

SENIOR OFFICIALS' GROUP

Record of Discussions

Discussions on 30 October (2nd part)

The Chairman invited statements on the subject of export credits for capital goods.

The representative of Zaire said that, considering the financial constraints before many debtor developing countries, 1985 and probably 1986 as well would see their trade balances worsening and their payment balances going down. The price of raw materials was the main cause of this situation, the markets of primary products being very depressed in spite of the increase of industrial production of the OECD regions. This situation did not enable the governments of debtor countries to help expand imports in conformity with their needs and development. The provisions relating to official export credits were not such as to be favourable to a real flux of credits. At the same time, even foreign private investment in developing countries was going down, from 17 billion dollars in 1981 to just 8 billion dollars in 1983. Official assistance in the field of development, which represented 37.5 billion dollars in 1981, fell in 1983 to 33.6 billion dollars. There was much discussion of the creation of a multilateral agency, with an initial capital of one billion dollars, to guarantee credits. This should improve the general climate for investments in third world countries. There was also a special fund for Africa which the international financial institutions considered required 2 billion dollars every year to help the efforts for economic improvements in Africa. There were press reports of a United States' proposal to ask the IMF and the World Bank to set up a fund of 5 billion dollars for the next five years. The African states which were the most indebted and which had - along with Bangladesh - virtually nothing, could borrow from that fund if they committed themselves to fulfil long-term measures to improve their economies. For the special fund for Africa, a large number of developed countries, which were also members of the GATT, had clearly informed the World Bank of their intention not to make a contribution to the setting up of that special fund. He asked whether developing countries could not turn to those contracting parties which were parties to international arrangements on export credits to say very clearly whether it was possible to set up a new international assistance arrangement to help the developing countries to obtain easily credits which they really needed for their development and trading purposes. How did their developed partners envisage modifying the export credit regulations, considering the needs of the developing countries in general, and of the least-advanced developing countries in particular? This had been the fundamental question which Ministers had addressed to the developed countries, parties to the special arrangements on export credits. What attitude would they adopt to make it easier to obtain such credits? Everyone knew that the provisions enforced made these credits very difficult to obtain. His delegation was awaiting concrete proposals from the developed countries, within the framework of the future negotiations.

The Chairman then invited statements on the subject of trade in certain natural resource products.

The representative of Canada said that his country was a strong supporter of the inclusion of this item in the GATT Work Programme and had participated very actively in the working party established to examine problems of trade in this area. His delegation was generally pleased with the progress achieved in the three product groups. The work carried out had demonstrated the continuing importance of tariff and non-tariff barriers to trade in unprocessed, semi- and fully-processed natural resource products, including the related problems of tariff escalation and high rates of effective protection. As a result of work in this area, there was a general recognition that problems affecting trade in resource-based products should be the subject of multilateral trade negotiations. Canada attached high priority to negotiations involving trade in resource-based products but was not committed to any particular form or process of negotiations. This question should be the subject of discussions among interested contracting parties.

The representative of Chile advocated setting up a special programme aimed at a comprehensive, progressive and more intensive trade liberalization in the sector of natural resource products which comprised non-ferrous metals and minerals, forestry products and fish and fishery products. A sectoral approach should consider the questions of tariffs including tariff escalation, non-tariff measures and other issues of market access with respect to raw materials, semi-processed and processed products. Moreover, the forestry sector should include cellulose and paper. Any negotiation in these sectors should also address the issue of negative preferences.

The representative of Zaire said that while three-quarters of the inhabitants of developing countries were farmers, in developed countries farmers represented less than 10 per cent of the population. For developing countries the production of raw materials was a fundamental question. In 1985 the average price of raw materials was 11 per cent below the 1982 average. In 1984 the rate of growth of OECD countries had been 4.9 per cent and the average prices of raw materials had fallen by 3 per cent. In 1985 the expected rate of growth of OECD countries was 3.25 per cent and the average prices of raw materials were expected to decline by 4.3 per cent. These statistics and forecasts gave evidence of a situation of crisis which brought hunger, misery and death to vast sectors of the population. Trade negotiations in GATT concerning primary products should cover tariffs, non-tariff barriers and other obstacles to trade with the aim of increasing the degree of processing in the producing countries for products such as copper, coconuts, palm oil, etc. Even though GATT was not the appropriate place to discuss problems concerning international agreements on products, or the stabilization of the prices of raw materials, in his opinion, the problem of prices could not be separated from other approaches to problems of trade in natural resource products. For his delegation this issue was as important as were trade in services or high technology goods for other delegations. As a member of the ACP Group, his country insisted that a new round of trade negotiations should not prejudice the preferences enjoyed by the developing countries members of the Lomé Convention. It would also be useful to reinforce the trade promotion activities of the ITC with respect to natural resource products in their semi-processed and processed forms.

The representative of Peru said that her delegation attached priority interest to this sector. The work of the Working Party on Trade in Certain Natural Resource Products had been satisfactory and had identified a series of problems within the competence of GATT which could be considered within the framework of the proposed multilateral trade negotiations. Her delegation had particular interest that a sectoral approach concerning tariffs, tariff escalation and non-tariff measures be applied to trade in natural resource products in any future round of negotiations.

The representative of New Zealand supported trade liberalization in the course of the proposed trade negotiations for natural resource products. His country which had comparative advantages in the areas of fish and fisheries products and in forestry products, expected that all market access restrictions would be tackled in the new round in a broad negotiating framework not limited by spurious categorizations.

The representative of the European Communities expressed support for the views put forward by Zaire. At this stage progress in this sector could only take place in the framework of negotiations. For forestry products and non-ferrous metals the problems were classical: tariffs, tariff escalation, non-tariff barriers, etc. In the sector of fish and fisheries products the studies carried out had highlighted as a new feature worthy of interest and worthy of negotiation the question of resources and especially the link of access to resources with access to markets, which had appeared in bilateral negotiations. It should be considered in a transparent manner at a multilateral level. Thus, the framework of negotiations for fish and fisheries products should include all factors specific to this field which might influence trade in these products.

The representative of Spain acknowledged that important work had taken place with respect to trade in certain natural resource products. In the case of fish and fisheries products certain particular elements affecting trade in these products had been identified. A new round should seek to achieve a global and multilateral solution to the specific problems identified in this area.

The representative of Sweden, on behalf of the Nordic countries, said that the 1982 Ministerial Decision did not imply anything more than studies to be undertaken in the three sectors of natural resource products and did not prejudge whatever steps might be taken thereafter. It was up to the CONTRACTING PARTIES to react to the reports drawn up by the working party. The goal of trade liberalization should be pursued through as general approaches and general formulae as possible. In the Nordic view, sectoral negotiations tend to lead to an unproductive fragmentation of international trade and trade relations which should be avoided.

The representative of Uruguay said that his position coincided with the views expressed by the delegations of Canada, Chile, Peru and New Zealand.

The Chairman then introduced the subject of exchange rate fluctuations and their effect on trade.

The representative of Brazil said that this question should be formally dealt with as an independent issue because it was a subject upon which there had been a specific decision of the CONTRACTING PARTIES taken at Ministerial level in 1982. He felt that the mandate of the Ministerial Declaration of 1982 on this subject had been interpreted in a limited way, as if it were a question only of a study to be produced by the International Monetary Fund. He said that the GATT had to have its own views on the implication on trade of exchange rate fluctuations. He noted that like the IMF itself the GATT had been set up in a context of stable exchange rates. Much of what had been done in terms of rule-making in GATT was connected with the stability that had been prevalent at the time. He said that the series of negotiations which took place in the GATT were to a large extent based on the assumption of stable exchange rates. Under the circumstances, he considered that the CONTRACTING PARTIES should have their own understanding of the implications of the new situation created as a result of the end of the system of stable exchange rates. He said that the issue was of relevance and, indeed, of priority importance to his Government. He stressed that the GATT should engage itself in an in-depth examination of the problem, so that all contracting parties were in a position to evaluate the effects of exchange rate fluctuations not only on concessions already exchanged in previous rounds of trade negotiations but also on any new concessions that might possibly be exchanged in the proposed new round of trade negotiations.

The representative of the European Communities recalled that on 7 May 1982 a document PREP.COM/W/11 had been circulated by the European Economic Community on this subject. The document concluded with the following statement: "the tendency towards protectionism in one form or another must be brought under control". He said that the Communities were more than ever convinced that a solution must be found to the problem of exchange rate fluctuations which have destabilizing effects on the trading environment. He recalled that the Communities had stated their position in their communication, paragraph 2(e) of document L/5835. He said that he noticed that the partner who was most important for the Communities for solving all of these problems and for providing for a stabilized environment was starting to listen and that the situation had evolved in New York and Seoul. A certain number of small steps had already been taken which might lead to greater ones. He noted that for the results of a new round of multilateral negotiations to be effective, a parallel effort and action must be made in the monetary and financial sphere.

The representative of Chile reserved his right to speak on this topic at a later date and in a more global perspective.

The representative of India stated that his country's views were incorporated in paragraph 9 of L/5818. He said that it was essential that the CONTRACTING PARTIES should examine all the various effects of exchange rate fluctuations on international trade. He noted that the action taken pursuant to the Ministerial Decision of 1982 had not served this purpose and therefore it was necessary to pursue the work in the context of a proposed new round of negotiations.

The representative of Argentina reserved his position and stated that he would like to speak at a later stage in a global perspective.

The representative of Egypt recalled his delegation's previous statements on this subject. He stressed the need for an in-depth examination of this subject in the GATT.

The representative of Yugoslavia said that it was necessary to have an in-depth analysis in the GATT on this subject as this would contribute to a more precise evaluation of the results expected to be achieved from the proposed new round of negotiations. Also, having in mind that trade problems and monetary and financial problems were inter-related, he considered that a substantial improvement in multilateral trade relations could not be achieved unless parallel action was taken to promote adequate changes in the monetary and financial field. He felt that it was necessary to create confidence that, parallel to trade negotiations, adequate ways and means would be sought to settle the debt problems of the developing countries and to review and reform the international financial and monetary system. It was understood that monetary and financial problems should be dealt with in the appropriate international fora.

The representative of Pakistan stated that his country's position was reflected in L/5818. He considered that the study prepared on this subject had not gone to the heart of the problem. He noted that since the effects of exchange rate fluctuations on the trade of developing countries were very pronounced, it was essential for the CONTRACTING PARTIES to find ways to address the problem. He also said that positive developments in the GATT were only possible in the broader perspective of the review and reform of the international monetary and financial system which should particularly include the question of capital flows.

The representative of Zaire said that there was a close connection between the state of the international monetary and financial system and the trading environment. As a developing country, Zaire had always been left out of discussions on the stabilization of the international monetary and financial situation. He recalled that India, among others, had for the past two years been asking that an international conference be convened on financial and monetary affairs to discuss the pressing problems in these areas. He regretted that there had as yet been no response to this proposal voiced by India on behalf of the developing countries. He considered that GATT should take the initiative and make a concrete proposal because it was not possible to proceed with trade liberalization without the reform of the international financial and monetary system. He said that the GATT was equipped to suggest solutions in this area.

The representative of the United States said that he could not disagree with those who argued that the macro-economic and monetary system formed the background for what was done in the GATT. He recognized that to a large extent the stability, or lack of stability in that system affected trading relationships. While recognizing this and desiring that continued work be done to improve the overall monetary environment, he however stressed that it should not be used as an excuse for not undertaking the needed negotiations for improving the trading rules in the GATT. He noted that steps had begun to be taken to improve the overall monetary and financial environment and considered that it was time that contracting parties take similar positive action on trade issues in the GATT.

The Chairman, inviting discussion on the topic of services, said that he expected delegates to bear in mind the understandings embodied in the two final paragraphs of the Decision taken by the CONTRACTING PARTIES at the Special Session of 2 October which were as follows:

"The Senior Officials' Group will examine the subject matter and modalities of the proposed negotiations in the light of the GATT Work Programme and priorities for the 1980s as contained in the Ministerial Declaration of 1982 and the continuing consideration of changes in the trading environment so as to ensure that GATT is responsive to these changes;

"The work of the Senior Officials' Group will not prejudice the ongoing work of the GATT in terms of the 1982 Work Programme and will not prejudice the work on services in terms of the 1982 and 1984 decisions and agreed conclusions of the CONTRACTING PARTIES; the November session will also receive reports on this ongoing work.

The representative of the European Communities said that in the Communities' view services represented a part of the new round of negotiations and that this was an inevitable fact. He noted that the Decision of 2 October had emphasized the need for continuing consideration of changes in the trading environment so as to ensure that GATT succeeded in adapting itself to the evolving structure and needs of international trade. This was vital because without such a review GATT might be condemned to death. The Communities and their member States did not seek to prejudice the work carried out on services under the Decisions adopted and the conclusions which had been agreed by the CONTRACTING PARTIES in 1982 and in 1984. However, there existed within the Communities and their member States an increasing awareness of the constantly growing share of services in the total trade of the Communities. In his delegation's view this growth should not be hampered by questions of procedure or theology. The road would be long but the Communities would go to the very end of that road with the objective that trade in services should achieve the place of importance it deserved within the framework of the GATT. For the future negotiations the Communities had three preliminary objectives in mind. The first was to seek for governments and for firms engaged in services a higher degree of predictability. This meant that the Communities' governments and enterprises wanted to improve their knowledge of the regulations and situations within their own countries and in those with which they intended to develop trade in services. Better predictability would thus result from better knowledge, leading to greater transparency.

Continuing, he said that the second objective was security in operation for the Communities' governments and enterprises resulting from an environment or framework signposted by principles and rules specific to trade in services. This did not mean that the principles and rules of GATT would apply automatically and blindly. The third objective was the liberalization of trade in services through the contractual, progressive elimination of barriers identified objectively as protectionist. The Community was quite open for the time being as to whether these objectives

should be accomplished through a sequential approach, i.e. on a successive basis, or simultaneously. To translate these ideas into acts, it was not necessary to have the totality of contracting parties involved. He stressed that those who felt concerned and interested should be able to participate in this exercise, and should even be able to withdraw. Those who might feel doubtful or worried should be able to observe and assess the possible advantages or drawbacks. If subsequently they so wished, they might join those who had already started negotiating, or those who had already succeeded in negotiating an arrangement on services. Trade in services should not be a controversial issue: services were part of the life of international trade and those who now opposed their consideration as such risked assuming a very severe and dangerous historical responsibility.

The representative of Japan said that in line with the increasing importance of service industries in domestic economies, and their internationalisation, trade in services occupied an increasingly important rôle in world trade. GATT should address such changes in the trading environment. He recalled that the objectives of GATT were to raise standards of living, ensure full employment and a large and steadily growing volume of real income and effective demand, to develop full use of resources and to expand the production and exchange of goods, as stipulated in the preamble of the General Agreement. He said that with those objectives in mind GATT had been evolving in addressing new areas including Part IV, government procurement, and various non-tariff measures. It was important to note that nothing in the GATT excluded services from its competence. He stressed that a question of the competence of the GATT was one thing, but a question of whether it was appropriate for GATT to deal with services was a different matter. In his view the following reasons warranted the negotiations in this area being conducted under the auspices of GATT: (1) In view of the increasing importance of trade in services in world trade, the GATT system could be revitalised by adapting itself to such changes; (2) Trade in services was closely linked with trade in goods and therefore the dismantling of obstacles to trade in services would lead to the expansion of trade in goods and thus to the expansion of the world economy; (3) Negotiations on services with a view to expanding trade could best be conducted in the GATT with the participation of as many countries as possible. Other international organisations were dealing with some elements of services but not specifically for the expansion of trade; and (4) In the light of its long tradition and accumulated know-how in dealing with trade matters, the GATT was best suited for deliberation on issues of trade in services. In the view of his government it would be useful to consider working out a code; the specific legal relationship of the code vis-à-vis the General Agreement could be considered at the time of the final agreement on the draft of the code. Moreover, during the course of deliberations on the code, transitional measures could be provided for in view of the development needs of the developing countries in the services sector. The transitional measures could for instance provide for provisional accession to the code under certain conditions for a limited period for developing countries. The Japanese government would be open-minded and flexible in regard to modalities of negotiations on services, and was prepared to consider various options in the Preparatory Committee.

The representative of Jamaica recalled that GATT was in the process of examining the experience at the national level of individual contracting parties with a view to developing a better understanding of how trade in services was conducted. He said that a number of developed contracting parties were of the view that the GATT framework could be and should be applied to this sector and that all contracting parties recognized that further study was required. He noted, however, that developing contracting parties in general did not believe that the GATT framework could or should be applied to services without a better understanding of what was entailed in economic transactions labelled "services". He recalled that UNCTAD and several other regional and international institutions, were dealing with trade in services and had special expertise and competence in this sector. As regards a future course of action, he said that in a first phase, conceptual, analytical and statistical work should be jointly carried out by UNCTAD, GATT, OECD, the UN Statistical Office, etc. A second phase would consist of the formulation of general principles which might be incorporated into a framework for dealing with international service transactions, and that in a third phase, depending on phases 1 and 2, contracting parties in the GATT could determine whether a basis existed for negotiating precise rules to cover these international service transactions. He suggested that the precise institutional mechanism could be developed if the above was found generally acceptable. One approach might involve an Intergovernmental Group jointly chaired by the appropriate officers of UNCTAD and GATT. Such an Intergovernmental Group would be serviced by a joint UNCTAD/GATT Secretariat under the direction of the heads of these two Organizations. It did not need to be open-ended but might be restricted only to those countries which had notified their interest in participating. He said that if this proposal, modified as appropriate, were to be adopted at the 41st Session of the CONTRACTING PARTIES it should allow contracting parties to focus their attention on priorities requiring urgent attention, while work proceeded apace in preparing for substantive discussions on the subject of services.

The representative of Brazil said that services were accepted for discussion in GATT in the framework of the specific decision adopted by the CONTRACTING PARTIES at Ministerial level, in 1982, and that they had to be dealt with in accordance not only with that decision, but also in the light of the confirmation given by the Special Session of the CONTRACTING PARTIES on the convening of the Senior Officials Group. The views of his delegation could be stated in five points: (a) it was widely acknowledged that services were a subject completely outside the jurisdiction of the General Agreement on Tariffs and Trade; (b) consequently, services could not be included in the proposed new round of multilateral trade negotiations unless this was done with the consent of all contracting parties; (c) the inclusion of services in the proposed new round of multilateral trade negotiations could not and should not be presented, as was done by some developed contracting parties, as a condition for further trade liberalization in the area of trade in goods and even less as a condition for the observance of existing GATT rules and for the respect of specific obligations assumed in successive rounds of negotiations; (d) progress in trade liberalization was urgently

needed in the area of trade in goods and should not be blocked by the insistence of a few on the inclusion in the proposed new round of matters totally alien to the General Agreement; and (e) it was the expectation of the Brazilian Delegation that developed contracting parties taking this extreme and particular position would be fully aware of its implications for the multilateral trading system and of their responsibilities towards the GATT.

The representative of the United States recalled that it had been claimed by some delegations that governments in the GATT were "not competent to address the issue of trade in services," or that the issue of trade in services fell "outside of the GATT framework". He said that this claim should be "demystified" so that it would not occupy too much time or be too great a source of concern. He said that "competence" raised the issue of what the CONTRACTING PARTIES and this institution could and could not do - more specifically, whether one could begin serious consultations on the issue of services trade in a preparatory committee. The issue was not whether the CONTRACTING PARTIES could impose new obligations on unwilling governments. Similarly, the issue was not one of how the GATT framework would address trade in services; that was another issue, best decided in the course of negotiations. For the present, the question was, simply, whether the CONTRACTING PARTIES could consult on the issue of services trade in a preparatory committee. The General Agreement suggested that they could. He recalled that nearly forty years ago, and since then with each new accession, the CONTRACTING PARTIES had agreed that they were bound together in the pursuit of broad economic objectives, including those set forth in the Preamble, and then they had committed themselves to conduct trade and "economic endeavour" with a view to "raising standards of living, ensuring full employment and a large and steadily-growing volume of real income and effective demand, developing the full use of the resources of the world", as well as "expanding the production and exchange of goods." He said that it was with these broad economic objectives in mind, only one of which mentioned "goods", that the CONTRACTING PARTIES had adopted the GATT articles, seven "codes" or "agreements", two "arrangements" and dozens of resolutions and decisions. He noted that from an institutional standpoint, one of the most important of these enactments was Article XXV of the General Agreement. Article XXV authorized representatives of the CONTRACTING PARTIES to meet and take joint action "with a view to facilitating the operation and furthering the objectives of [the] Agreement". This was a critically important authority because it was one of the provisions which made the General Agreement a living instrument which had survived almost four decades, adapting to and fostering structural change in the world economy. Article XXV and the Preamble authorized and encouraged contracting parties to address issues in world trade as they arose, and he recalled that the parties to this agreement had accepted that challenge several times in the past. On a number of occasions, the CONTRACTING PARTIES had taken actions related to matters other than merely trade in goods, matters not explicitly mentioned in the text of the GATT. He pointed out that looking at GATT history one could find many examples of how this institution had already addressed itself to services in one way or another, and how its past

actions reflected the understanding that trade in services and the objectives in the Preamble were linked. He recalled, however, that the Group was not here to engage in a legal debate but rather to talk about trade problems to be addressed in a new round. Legally, the fact was that if the CONTRACTING PARTIES decided that the regulation of services might further the economic objectives set forth in the Preamble, that they could take action under Article XXV to launch negotiations or consultations on such regulation. There was no legal basis for the position that the GATT was not competent to do so. Institutionally, the fact was that the CONTRACTING PARTIES had a responsibility to use their Article XXV power to address new challenges like the present one - for this institution must adapt itself to changes in world trade, or it would be destined to become antiquated, obsolete and useless.

The representative of India said that he had very carefully listened to the Chairman's introduction and maintained that the debate should be kept strictly within the parameters of the decision on the basis of which the Senior Officials' Group was meeting. He also reserved his right to make further comments at a later stage.