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SUMMARY RECORD OF THE FIFTH MEETING

Held at the International Labour Office
on Wednesday, 27 November 1985, at 3 p.m.

Chairman: Mr. P. Rantanen (Finland)

Subjects discussed: - Activities of GATT (continued)
- Report of the Senior Officials Group (continued)

Mr. FURULYÁS (Hungary) said that his country was vitally interested in a well-functioning, predictable and stable trading system. A small trading nation's economic objectives could be achieved only in a trade environment ensuring non-discrimination. Hungary therefore shared the concern of other trading nations at the danger of collapse of the GATT system resulting from, among other factors, increasing non-compliance with GATT contractual commitments, and solutions to national problems through negotiations outside GATT. The partial implementation of the Work Program had revealed a potential for strengthening the GATT system by outlining possible solutions in the difficult and neglected area of trade in agriculture. A new round would have to include agriculture as a priority issue, and should reinforce basic GATT principles such as m.f.n. treatment and non-discrimination. Hungary had indicated other priorities at the Special Session of the CONTRACTING PARTIES in September, as well as in the Senior Officials Group. Regarding participation in the new round, he said that the Tokyo Round formula should be used. Further deterioration of GATT disciplines could not be afforded, and the chance to bring agricultural trade under effective GATT rules should not be missed. Hungary therefore supported the establishment of a Preparatory Committee whose mandate should not prejudice the substantive content of the negotiations; that content should be decided by the CONTRACTING PARTIES during the forthcoming preparatory process.

Mr. KUMAR (India) said that the state of the multilateral trading system, and the new round of trade negotiations were the main questions before the present Session. The Special Session in September had set in motion a process which had included establishment of a Senior Officials Group to examine the subjects and procedures of the proposed new round. Although the Group had had a wide-ranging exchange of views, it had not been able to agree on a report to the CONTRACTING PARTIES, which indicated both the complexities of the issues and the different perceptions of contracting parties.

While India did not oppose a new round of negotiations, it had been sceptical about the outcome, in the light of the experience of the previous round and developments since then. He recalled that one of the principal aims in the Tokyo Declaration was to secure additional benefits for, and accelerate the growth rate of, developing countries' trade, and to diversify their exports. It had also sought to achieve substantial improvement in conditions of access for products of interest to developing countries and to attain stable, equitable and remunerative prices for primary products. He reviewed several results of the Tokyo Round: in high-technology goods, such as aircraft, in which some of the developed countries had comparative advantage, tariffs had been totally eliminated, whereas for such goods as textiles, leather and consumer electronics, in which developing countries had comparative advantage, there had been either exemptions from tariff cuts or minimal reductions. Trade had not been liberalized in a number of products on which export restraints had been imposed. There had been no agreement in the area of safeguards, which was of importance to developing countries.

The commitments on standstill and rollback undertaken at the 1982 Ministerial meeting were frequently breached. Circumvention, distorted interpretation and outright non-observance of GATT rules seriously threatened the system. He wondered whether rectification of the rules would solve the problem when, for example, countries openly stated their inability to implement recommendations of the Textiles Surveillance Body and the GATT Council. This was often the result of refusal to recognize that the pattern of world trade was changing due to the development of the economies of the developing countries. Unless adjustment measures were taken, reinforcing the rules might not help.

While India had doubts that new negotiations would ease protectionist pressures in certain developed economies, it had agreed at the Special Session to begin the preparatory process of examining the subjects and procedures of a new round. Any decision to set up a Preparatory Committee had to include a commitment by all contracting parties on a standstill of any restrictive measure not in strict conformity with the General Agreement. All contracting parties should take this commitment at the highest level of Government and should notify their commitments to the Secretariat. This would be the minimum pre-requisite for beginning a process to strengthen the multilateral trading system. The Preparatory Committee should prepare a program for rollback to be implemented in accordance with an agreed time-table and to begin when the decision was taken to launch a new round. A comprehensive agreement on safeguards would help to strengthen the multilateral trading system and to check the proliferation of discriminatory and restrictive measures. In addition, there should be a unanimous reaffirmation of special and differential treatment for developing countries.

The request that no pre-conditions be attached to the establishment of the Preparatory Committee implied that the Committee should also consider new issues; India considered that this in itself was a pre-condition. He recalled that his country opposed the consideration of issues not part of GATT. Regarding services, there was general recognition that the deliberations on the exchange of information had not progressed to the stage of deciding on the appropriateness and desirability of multilateral action in this area. The Chairman's report on that exchange of information showed that not even problems relating to definitions had been resolved; there was no consensus on how to measure trade in services, and confusion existed between the concepts of access to markets and right of establishment. The inadequacy of available data on services had been widely acknowledged. Even if multilateral action was ultimately found feasible and desirable in a certain sector, the CONTRACTING PARTIES would need to take a decision on the most appropriate approach and most suitable forum for such action. India could agree to a continuation of the exploratory and analytical work on services as envisaged in the 1982 and 1984 decisions of the CONTRACTING PARTIES.

GATT disciplines had been conceived in the context of tariff commitments on trade in goods, to try to regulate trade through tariffs rather than quantitative restrictions; provisions on non-tariff measures, safeguards and dispute settlement had been incorporated with a view to ensuring that tariff commitments would not be nullified. These approaches were not capable of being transposed to the intangible sector of services. India rejected the legal validity of the argument, made by one delegation, that the broad economic objective set forth in the Preamble of the General Agreement, read with Article XXV, permitted the CONTRACTING PARTIES to deal with any issue, including services. India had explained its understanding of the Preamble at length in the Senior Officials Group. According to the Vienna Convention on the Law of Treaties, a treaty had to be interpreted in the context in which it had been negotiated. The ECOSOC Resolution of 18 February 1946 had convened the UN Conference on Trade and Employment for the purpose of promoting the production, exchange and consumption of goods; this had led to the Havana Charter for an International Trade organization, and to the General Agreement as an interim arrangement. The joint action of the CONTRACTING PARTIES in furtherance of those objectives had to cover subjects belonging to the same specie or genre; the CONTRACTING PARTIES could not create bodies with a mandate larger than their own. These were legal matters and could not be settled by procedural devices.

In conclusion, he said that India agreed to the establishment of a Preparatory Committee which would elaborate, within the GATT framework, the objectives, subjects, procedures and timing of a new round of negotiations, provided devices were built in to ensure that matters of concern for developing countries received full and priority attention.

Mr. YAVUZALP (Turkey) said that as stated in the GATT publication "International Trade 1984/85", protectionist policies had played an important rôle in the fall in the growth rate of world trade during 1985. Despite the call for a rollback of these measures and for further trade liberalization, protectionist pressures and measures in many industrialized countries had increased. While the situation confronting the international trading system affected the interests of all contracting parties, the developing countries, which needed to increase exports in order to reach their development goals, were the main victims. At the same time, many of them, including Turkey, carried a heavy debt burden which required that they increase their exports. However, the heavily-indebted countries were among those whose exports faced the most strict protectionist measures.

While some useful work had been done under the 1982 Work Program, the developed countries had focused more on beginning a new round of multilateral trade negotiations, than on autonomous liberalization actions to facilitate a consensus on the new round. An increasing share of world trade was subject to discriminatory restrictions in one form or another. Turkey, which had in recent years been implementing a trade liberalization program, had been faced with restrictions imposed by the very countries which had encouraged it to abandon trade-restrictive policies. Turkey believed that the new round would be the best solution to problems in the trading system, but its proponents had put more emphasis on the benefits they expected to gain than on the concessions they were ready to make. Those countries should commit themselves at an early stage to a standstill on all measures contrary to GATT, thus ensuring that developing countries' export earnings would be allowed to grow. Countries where protectionist pressures were the strongest should work towards structural adjustment in their own economies, which would also facilitate dealing with the question of safeguards. While the shortage of investment resources in developing countries was not directly connected with the issues addressed in GATT, any results achieved in this area would increase developing countries' productive capacity. Problems in the monetary and financial spheres had an impact on the multilateral trading system and had to be dealt with adequately in order to restore stability to that system.

Mr. NOGUEIRA BATISTA (Brazil) said that the CONTRACTING PARTIES, in focusing their attention at the present Session on preparations for a possible new round of multilateral trade negotiations, should be concentrating more on ways of ensuring greater respect for GATT provisions, dismantling grey-area measures and achieving a comprehensive understanding on safeguards. Implementation of the 1982 Work Program, in particular the commitments on standstill and rollback, should not be compromised. Despite the growing tendency in recent months to see a new round as a panacea for the present ills of the international trading system, the launching of negotiations could not substitute for unilateral or collective action that would effectively halt the deterioration of the trading environment. Improvement of that environment also depended on

individual and collective actions by major trading partners in the financial field. At the multilateral level, certain recent actions signalled the possibility for effective measures to deal with the roots of current world economic ills.

The recent meetings of the Senior Officials Group had allowed contracting parties to share views on a broad array of subjects, including the question of how to deal effectively with present weaknesses in the multilateral trading system. Developing countries had been disappointed because the Group had failed to a large extent to meet their concerns and expectations, and had led them to believe that a new round of multilateral trade negotiations, as proposed and envisaged by some developed contracting parties, did not offer any prospects of providing a minimum balance of benefits for developing countries.

Brazil regretted that differences over what should constitute the Group's report to the CONTRACTING PARTIES had resulted in the short factual account of its proceedings presented by the Group's Chairman on his own responsibility (L/5917). In order to enable contracting parties to tackle their differences without having to depart from the rule of consensus, it was imperative that decisions on new steps should fully take into account the different positions expressed by all parties. The argument that the views of the majority ought to prevail, when the minority represented a small share of world trade, did not justify departures from consensus.

In assessing the importance of contracting parties' positions on new issues, such as services, the relative importance of their markets had to be considered not only as a ratio of their share of world trade in goods but also with respect to the importance of the services sector in their economies.

A complex collective exercise aimed at trade liberalization would not be adequate to stem protectionist trends, as had been suggested by the proponents of a new round; only firm and credible individual commitments by contracting parties could bring satisfactory results. Brazil had proposed in the Senior Officials Group that such a commitment by contracting parties should precede any decisions on procedural steps leading to a possible new round, while stressing that what was being requested was no more than a resolve to abide by GATT rules and to refrain from resorting to restrictive import measures inconsistent with GATT. The ineffectiveness of previous commitments created the need for Governments to give new assurances at the highest political level. Furthermore, the prospects of possible future negotiations required individual commitments concerning the phasing-out of measures inconsistent with GATT which were presently in force, as there was no question of paying for elimination of illegal measures with concessions on restrictions compatible with GATT.

Discussions in the Senior Officials Group had demonstrated that there was a wide convergence of views among contracting parties on the importance of firm and credible standstill and rollback commitments subject to monitoring by an appropriate mechanism. The comprehensive 1982 Work Program, which contained a list of priorities for the present decade, should remain the basic guideline for collective action against protectionism. However, the CONTRACTING PARTIES had to address a number of key issues for expeditious implementation of that Program. There was an urgent need for a comprehensive agreement on safeguards. Commitments on standstill and rollback without such an agreement could not guarantee that internationally agreed disciplines would prevail over ad hoc bilateral solutions which would erode the multilateral trading system. Therefore, Brazil suggested that contracting parties should agree to treat safeguards as a priority first stage in the new round and independently from other items in any future negotiations. This would reinforce individual commitments while preventing further delays in the conclusion of an understanding. As had been suggested, future negotiations on safeguards should take into account both the statement of the Chairman of the Council on the status of discussions on safeguards (MDF/16), as well as the proposal put forward by Brazil at the July 1985 Council meeting (C/M/191, page 25). The aim of the work on safeguards should be to clarify and reinforce Article XIX disciplines; the results of such work should be made an integral part of the General Agreement.

Agriculture was of vital interest to Brazil. During the past two years, the Committee on Trade in Agriculture had identified problems and difficulties in the agricultural sector and had prescribed practical solutions to them. The in-depth discussions concerning such solutions had, however, revealed that progress was only possible in the context of wider trade negotiations.

The strengthening of GATT in priority areas such as safeguards and agriculture was essential if developing contracting parties were to liberalize their import régimes in the framework of a new round. Furthermore, the CONTRACTING PARTIES should agree, during the preparatory phase, on precise formulae to govern the determination of the level of reciprocity to be expected from developing contracting parties.

The relationship of the proposed Preparatory Committee to GATT's ongoing work, and in particular to the work of different groups within the context of the 1982 Work Program, deserved careful attention. The need to decide on the appropriateness and desirability of multilateral action on services as called for in paragraph 3 of the Ministerial decision was an aspect of the implementation of the Work Program which required specific action at the present Session. The report (L/5911) by the Chairman of the CONTRACTING PARTIES on the exchange of information carried out in pursuance of the 1984 Agreed Conclusions (BISD 31S/15) demonstrated that

the exchange had revealed a number of conceptual difficulties, that the issues under consideration had been intrinsically controversial and that the exercise had remained exploratory and incomplete. Differences over the desirability and appropriateness of multilateral action on services had not narrowed as a result of the exchange of information carried out so far; the case for multilateral action on services could not be said to have been established to the satisfaction of the CONTRACTING PARTIES. Thus, Brazil would be prepared to accept that the exchange of information be carried out for an extended period in order to provide the CONTRACTING PARTIES with a legal basis for continuing discussion in GATT on whether multilateral action on services in GATT would be appropriate and desirable.

Mr. VAN MEERBEKE (Colombia) said that the present Session was of great importance as the decisions taken would have a direct effect on the international trading system and on GATT. The world trade situation was worrisome, with trade growth lower in 1985 than in 1984, and a low forecast for 1986. The economic recovery had been more favourable to the developed than to the developing countries, and the latter were subject to increasing protectionist measures. Market access was limited by voluntary restraint agreements, subsidies, anti-dumping actions, quantitative restrictions and phytosanitary requirements. New criteria which were contrary to the principle of the Generalized System of Preferences, were being applied to those schemes, with the aim of eliminating some beneficiaries. Textiles trade was restricted by protectionist measures and bilateral agreements. Waivers and exceptions to GATT had become permanent, and Colombian agricultural exports were strongly affected by the policies of certain developed contracting parties. Bilateralism was becoming the standard upon which trade relations were based.

While the Ministerial Work Program had made little progress, especially in those areas of most interest to the developing countries, there had been an effort to include within GATT issues such as services, which were not within its competence.

Colombia considered that it was urgent to return to respect for GATT disciplines and obligations and to restore GATT's credibility, and that the only way to do this would be through a new round of trade negotiations. The best preparation for the negotiations would be the political will of all contracting parties to liberalize trade.

Colombia supported without reservation the decision to establish a Preparatory Committee. Participation in the Committee should be limited to contracting parties and to those countries in the process of acceding to GATT. The Committee should discuss the dates and procedures of the negotiations. Colombia's views on different issues had already been expressed in the Senior Officials Group. The Preparatory Committee should draw upon the work of all GATT bodies and should take full account of

developing countries' interests. He suggested that the work of the Committee be completed by the end of July 1986, and that the new round of negotiations be launched by a Ministerial meeting of the CONTRACTING PARTIES in the autumn.

In concluding, he stressed that for the new round to be credible, the CONTRACTING PARTIES would have to make a commitment at the present Session not to impose new restrictions which were contrary to GATT. It was also essential that the Preparatory Committee establish a program for the elimination of measures not in conformity with GATT. In spite of the difficulties it faced, GATT continued to be the only international organization which provided a permanent forum for the discussion and negotiation of trade.

Mr. MARIATEGUI (Peru) said that in the 1982 Ministerial Declaration the contracting parties had committed themselves to resist protectionism and to promote trade liberalization, and had reaffirmed their support of the GATT multilateral system. Three years later, however, the international trading climate was deteriorating, trade tensions had increased, and the trade policies of many countries had deviated from GATT principles and rules. The uneven economic recovery of the previous few years was beginning to lose momentum, and there had been an increase in protectionist measures and an international monetary crisis.

He deplored the increasing use of grey-area measures which threatened the delicate balance of GATT rights and obligations. The proliferation of discriminatory bilateral agreements which were contrary to GATT reduced the effectiveness of its disciplines. He described the commitments made by the developed countries in the 1982 Ministerial Declaration, particularly paragraph 7(i), and in GATT itself as a dead letter. This reduced the confidence of many developing countries as to what they might expect to gain from the proposed new round.

He noted that it was the developing countries which suffered most from the effects of protectionism. They were particularly vulnerable, as their economic development plans were dependent on foreign exchange. For debtor countries such as Peru, the outlook was critical. The resources required for debt servicing seriously reduced the growth and development possibilities of the debtor countries, which desperately needed to expand their trade. The relationship between trade and economic growth was a vital element for those countries and the only way to solve their debt problems. He stressed GATT's fundamental rôle in this area, and recalled that Peru had proposed an emergency program during the exploratory discussions on a new round, which it believed was the most appropriate way to deal with this issue within GATT.

Peru could not accept the use of isolationist trade policies to resolve problems stemming from other economic measures, nor that avoidance of the challenges of international competition should transfer the cost of those policies to other countries. He supported the Chairman's comments

that improvements in trade policy alone were not sufficient for economic growth, but must be complemented by reforms in the monetary and financial areas. In this regard, trade policies needed to be coordinated with fiscal, monetary and exchange rate policies, all of which affected trade.

The results so far of the 1982 Work Program had been modest and uneven. In the area of safeguards, which was fundamental to the effective functioning of the international trading system, it had been impossible to reach agreement based on the principles of Article XIX. On quantitative restrictions and other non-tariff measures, no agreement had been possible on their elimination or conformity with GATT. It had not been possible to fulfil the mandate on tropical products, an area of special interest to the developing countries and recommended by Ministers for further liberalization. Agriculture was another area in which the road towards liberalization was unclear. The lack of progress in the Work Program was a reflection of a lack of political will and of concrete decisions. As a result, the developing countries had lost much confidence in the proposed new round, which needed to take into account the disparities in countries' levels of development, including within the multilateral framework itself. The interests of the developing countries in trade in goods had to be considered, as well as the additional benefits they should receive.

To re-establish credibility and confidence in the system and to have the new round lead to freer trade, a standstill had to be implemented as an initial step in the process of eliminating protectionist measures. This would not be a precondition to the negotiations, but simply the fulfilment of commitments already made in the Ministerial Declaration. Without the developed countries' willingness to make efforts to improve the international climate by standstill and rollback, it would not make sense to begin negotiations to liberalize trade.

Peru's views on the new round had already been expressed in other GATT bodies. Those negotiations should focus on trade in goods, as GATT had been created to expand and regulate such trade, and the CONTRACTING PARTIES should address only those sectors covered by GATT. The exchange of information on services had made it clear that a more detailed examination was necessary; the information-gathering phase should be continued, permitting other countries to present their national studies, before any decision was made as to the most appropriate international action and forum. Without prejudice to an eventual decision on negotiations covering services, this could not be linked explicitly or implicitly with progress in negotiations on goods.

Mr. MACLEOD (United Kingdom on behalf of Hong Kong) said that Hong Kong had participated in the work of the Senior Officials Group, as part of the preparatory process for a new round, on the understanding that the objectives of the proposed negotiations would be to promote trade liberalization, to revitalize the multilateral system and to realize the

commitments of the 1982 Ministerial Declaration. It was an integral part of his delegation's understanding that fundamental GATT principles, in particular non-discrimination and the MFN principle, would not be for renegotiation; rather, one of the main purposes of a new round should be to strengthen and reinforce such vital principles.

He emphasized that the results of the Ministerial Declaration should not be swept aside or in any way accorded lower priority on the launching of new negotiations. Many of the tasks assigned by the Ministers were still far from accomplished. The Work Program represented a balanced, negotiated package encompassing all the elements that needed to be addressed; it should therefore be worked through to its logical conclusion. Despite the absence of a report from the Senior Officials Group, the preparatory process for a new round had been carried substantially further in the past two months. The Group had clearly identified areas of common interests and concerns, as well as areas where divergences persisted. The essential examination of subjects and procedures for the new round, with which the Group had been charged, had now been completed. The time had come to decide on the next steps.

In Hong Kong's view, two major tasks were now before the CONTRACTING PARTIES. First, there had been increasing recognition of the need to expedite action on a range of subjects of common concern including safeguards, agriculture, textiles, tariffs, dispute settlement, quantitative restrictions and other non-tariff measures, and many other issues. If the only way to advance on these subjects was through global negotiations, serious consideration was urgently needed as to how such negotiations should be organized in the context of a new round. This would be one of the main tasks of a Preparatory Committee.

The second task should be to intensify efforts to find a solution to problems in areas where positions had been fundamentally different. Those areas covered new issues, especially the question of services. Failure so far to reach a consensus on these issues would be no reason for deferring the preparatory process for a new round. A pragmatic approach was now needed which would involve first, a thorough analysis of the facts in the problem areas; and second, a process of reconciliation to resolve into a common approach the differences that had emerged. Hong Kong would support a decision to set up a Preparatory Committee, with priority being given to completing the Work Program and without prejudging the inclusion or exclusion of services or other new subjects in a new round.

Mr. ALFARARGI (Egypt) said that many countries continued to face serious constraints in their efforts for growth and improved living standards. Many developing countries' balance-of-payments situations were aggravated by heavy debt-service requirements. Developing countries' share in both world exports and imports had declined, and the terms of trade of developing country exporters of primary products had

fallen to their lowest level since 1957. Lower world output and trade growth in 1985 would mean lower per capita incomes in developing countries. African countries in particular faced bleak economic prospects. There was a need to strengthen and to spread the recovery widely throughout the world economy, particularly to developing countries. A reduction in protectionism and an increase in the security and scope of market access would be important in achieving this objective. He said that a number of developing countries, including Egypt, had made efforts to liberalize their import régimes by shifting away from import substitution and towards export-orientated growth; these could not be continued without the developed countries pursuing open trade policies.

The Work Program remained the best available set of guidelines for improving the world trading system, with priorities for action for the entire decade of the 1980s; its implementation remained the appropriate solution to world trade problems. Past experience did not warrant confidence in a new round of negotiations as a solution to protectionism. There was no indication that a new round would eliminate or reduce the basic asymmetry in trade relations between developed and developing countries. Furthermore, the proposed new round envisioned the inclusion of services, a new subject with no relevance to GATT which covered trade in goods. The scope of the General Agreement was spelled out in Part I; according to Articles XXV and XXX any amendment of that scope required acceptance by all contracting parties. The exchange of information on services provided for in the Ministerial Declaration had not yet been completed and the national studies examined were not broadly representative. Furthermore, the rôle of other international organizations examining this issue had not been fully considered.

Egypt could accept the continued examination of the services issue within the parameters of the 1982 Ministerial Declaration and the 1984 Agreed Conclusions, and could agree to establishing a Preparatory Committee for an eventual new round of negotiations on trade in goods. All contracting parties would have to undertake a standstill commitment, and the Preparatory Committee should decide on a program to roll back measures inconsistent with GATT and to identify procedures to ensure the application of more favourable treatment for developing countries. Another priority for Egypt was the elaboration of a comprehensive agreement on safeguards based on GATT principles. His delegation would make constructive efforts to preserve the GATT tradition of agreement by consensus.

Mr. NAGARATNAM (Sri Lanka) said that despite the CONTRACTING PARTIES' renewed consensus in 1982 to abide by their GATT obligations and to support and improve the multilateral trading system, there had been a further erosion of GATT principles and rules. The proliferation and intensification of protectionist measures and pressures had continued unabated. He endorsed the view expressed in GATT's publication "International Trade 1984/85", that well-designed monetary and fiscal policies were essential for the smooth functioning of the trading system,

just as effective trade rules and open markets were essential for macro-economic management. Developing countries' export earnings were expected to shrink by 2.5 per cent in 1984, which would severely compound their payments problems as they strove to meet import bills and debt payments. Despite the strong growth in world trade in 1984, the ratio of trade growth to output growth had remained essentially unchanged over the past decade, and protectionism might well have contributed to that situation. Protectionist measures in the major industrial countries continued to be focused on sectors which were of particular interest to developing countries and which were in need of structural change, including textiles and clothing, footwear, agriculture, steel and consumer electronics. The effects of those trade barriers had been reduced growth in the developed countries, thus limiting employment opportunities and depriving developing countries of vitally needed export markets.

Since 1977, Sri Lanka had been pursuing policies to liberalize its trading system, despite the adjustments this entailed, and most recently had even liberalized textile imports. However, those policies were being threatened by increasing protectionism and resistance to structural change in the world at large. In Sri Lanka's view, a combination of strengthened trade disciplines and increased market access were now essential to the trading system.

He commended the Committee on Trade and Development's program of consultations on the implementation of Part IV and supported its continuance. He emphasized that tropical products was one area in which non-reciprocity and differential and more favourable treatment for developing countries were particularly justified. Sri Lanka supported the strengthening of technical assistance activities called for by the Ministerial Declaration. As to the the MTN Agreements and Arrangements, in view of the countervailing duty actions directed at non-signatories to the Subsidies Code, there was increased need to examine this issue in a working party, as had been proposed.

Sri Lanka saw the services issue in the context of domestic growth and development. The present exploratory process should continue separately and independently without detracting from GATT's central area of responsibility. Given the complex and heterogeneous character of the issues involved, and the fact that several international organizations had competence in this area, decisions could not yet be effectively taken.

The commitments in the Ministerial Declaration and the elements in the Work Program, if implemented, could contribute much towards strengthened trade disciplines and increased market access. Consequently, implementation of the Work Program should be at the centre of any proposed new round. Sri Lanka supported a consensus to establish a Preparatory Committee which would be without commitment as to participation in the negotiations once launched, without prejudice as to subjects to be negotiated and with the widest participation.

Mr. SHEARER (South Africa) stated his country's support for the new round of multilateral trade negotiations. His delegation would welcome a decision by the CONTRACTING PARTIES at the present Session to establish a Preparatory Committee to prepare for Ministerial approval the subjects and procedures for the new round. While providing a means of reversing the decline in world trade and the tendency in many countries towards protectionism, the new round should also contribute to restoring confidence in GATT and to promoting a return to the principles of non-discrimination and most-favoured-nation treatment.

South Africa would welcome continuation of the exploratory process in the field of services. South Africa's national study was being finalized. No purpose could be achieved by excluding services from the discussions at the outset. In view of the time required to complete multilateral trade negotiations, they should remain sufficiently flexible to take account of changing patterns in the composition of contracting parties' national product and in international trade. Although a great deal remained to be done on many traditional subjects, South Africa would not oppose the initiation, during the new round, of exploratory negotiations on so-called new issues, including trade in services, by those countries which were in a position to do so.

Mr. HARAN (Israel) said that while his delegation supported the establishment of a Preparatory Committee for the new round, this was not enough, given the state of the trading system. He recalled that a preparatory process to lead to the new round had already been put in motion by the Special Session, which had set up the Senior Officials Group; however, that Group's deliberations had ended in frustration. He stressed that the experience of the Senior Officials Group should not be repeated. Nevertheless, the Group's deliberations had not been, as some delegations had suggested, a confrontation between developed and developing contracting parties, but rather an airing of positions. Instead of a report reflecting those positions, the Group had produced very lengthy summary records of doubtful usefulness.

It was important that a Preparatory Committee present clear recommendations. The decision to establish such a Committee should not only propose a time-frame but also specify that any recommendations should be presented to a body with the necessary decision-making powers, such as a Ministerial meeting. Participants should not raise procedural points which would obstruct orderly work in the Committee. He recalled that the 1982 Ministerial Declaration contained an undertaking on behalf of all contracting parties on standstill and rollback, and that this must therefore be respected by all. It would further be necessary to devise some mechanism to feed into the Preparatory Committee the work of the various bodies concerned with all elements of the Work Program.

The issue of trade in services was no less important to developing than to developed countries; it was therefore necessary for developing countries to be involved in any consideration of this issue from the start. He recalled that the Havana Charter had foreseen "special

procedures with respect to services". He stressed the need to maintain a consensus within GATT; it was essential that any new negotiations be open to all contracting parties and to all those wanting to become contracting parties.

Mr. VEJAJIVA (Thailand) supported establishment of a Preparatory Committee for a new round of multilateral trade negotiations, as suggested by Singapore on behalf of the ASEAN contracting parties. However, Thailand noted that while negotiations aiming to improve the international trading environment were being called for, both the agricultural and manufactured exports of developing countries were facing more, rather than less, protectionist measures applied by certain major trading partners. Various restrictive techniques including import quotas, grey-area measures outside the GATT framework, voluntary export restraints, orderly marketing arrangements and countervailing measures had been used to curtail competitive imports from developing countries. During the recent past, Thailand had met various stumbling blocks put up by its major trading partners against a wide range of its exports including canned food, textiles and clothing, and tapioca products. His country, recognized as one of the most efficient rice-producing countries, had been accused of subsidising its rice exports to one major developed market. He noted that while the reports of various GATT bodies showed that GATT had been working diligently towards improving the international trading environment, words had not been matched by action. Ways of solving problems were known, but contracting parties had been unable to take the necessary action because of lack of courage and open-mindedness. This accounted for slow progress in implementing the 1982 Work Program.

Thailand attached great importance to trade in agriculture. The only outcome of three years' work in GATT, following the 1982 Ministerial decision, was an agreement to pursue examination of this field (L/5928). In order to achieve any real progress, this examination had to be conducted with an objective and result-oriented approach. The CONTRACTING PARTIES could not further postpone tackling problems in agricultural trade as this sector was of great importance in many developed and developing countries' economies. In addition, liberalized trade in agriculture would have a positive impact on food problems threatening people in various parts of the world. Many recent initiatives for improving the world trading situation had not been responded to by policy-makers in different countries. Despite this, it was encouraging to note that there were greater efforts in the direction of trade liberalization, not only in the public sector but also by individuals in their personal capacities. The Director-General's initiative to commission the report on "Trade Policies for a Better Future"¹ deserved specific mention; however, implementation of that report's proposals required a strong political commitment by all

¹ Circulated with C/133.

trading nations, especially the major ones whose economic policies had a strong impact on the others. Many of the Study Group's proposals should be seriously considered as possible targets for the new round.

Contracting parties should be realistic as to the concessions to be requested from their negotiating partners. The new round of negotiations should take fully into account the needs of individual contracting parties. Developing countries should not be expected to make contributions which were inconsistent with their individual development, financial and trade needs. Thailand hoped that the preparatory process for the proposed new round would help to alleviate the protectionist pressures which prevailed in many countries.

Mr. ADEYEMI (Nigeria) said that an upsurge of protectionist pressures and recourse to non-tariff measures, quantitative restrictions, subsidies and other measures in violation of the General Agreement, had eroded the trade liberalization on which GATT was grounded. His delegation endorsed the view that in the present climate of rapidly increasing changes in trade patterns, GATT had to respond to those changes in order to assure its continued relevance. The 1982 Work Program remained the most equitable approach to harmonizing the interests of the largest number of contracting parties. However, due to a lack of political will, the Program had not worked, and other avenues were now sought to achieve the same ends. While not convinced that a new round would answer present problems, his delegation had supported establishment of the Senior Officials Group and understood the protectionist pressures faced by a number of developed contracting parties. Protectionism, which benefited no one, had eroded the developing contracting parties' ability to gain access to developed country markets. The resulting shortfall in earnings and declining prices for developing countries' primary products and commodities had wreaked havoc in their economies, and the debt burden had further compounded the damage. Developed countries had also suffered due to lagging sales in developing country markets.

Given present circumstances, developed countries had to make a commitment both to standstill and rollback before launching the new round of negotiations. Outstanding issues in the Work Program should be accorded priority, but all contracting parties' interests should be included. However, GATT should first attend to matters within its traditional domain, even if it undertook parallel action in areas new to the system or for which the General Agreement might lack legal competence. His delegation understood why some contracting parties wanted to include services in the new round from the outset, but felt that this was a broadly heterogeneous subject on which there was so far not enough information and statistics. The exchange of information within GATT on services should help prepare the ground if and when negotiations in services were begun.

Nevertheless, GATT had been conceived as a tariff agreement, and rules relating to non-tariff measures and general provisions on safeguards and dispute settlement had been incorporated only with a view to ensuring that tariff commitments were not impaired or nullified. He questioned the relevance of GATT provisions to services; this was the reason a number of delegations had said that the inclusion of services in any multilateral framework under the present GATT régime would involve amending the General Agreement itself. There was also some question as to the feasibility of multilateral disciplines in the services area even outside the GATT framework. Furthermore, no arguments had been made that the mandate of other international organizations currently dealing with services was either inadequate or flawed. The question was whether GATT's efficiency would be enhanced by including services. Nigeria, like all developing contracting parties, had not yet submitted to GATT a national study on services, but was working to do so. His Government wanted to be in a position to participate in negotiations on this subject as soon as they began.

He appealed to the developed contracting parties to show patience and understanding for developing countries' problems, particularly in trade in goods. His delegation expected the developed countries to make standstill and rollback commitments, and also wanted assurance that action would continue on the Work Program during the course of launching the new round. In Nigeria's view, the Preparatory Committee could take up areas of services such as banking, insurance and shipping, which were clearly tradeable and which should enhance negotiations on trade in goods.

In concluding, he said that only political will would advance the negotiations if and when the new round was launched, and that the absence of such will had been responsible for the partial implementation of Tokyo Round commitments and the lack of progress in the 1982 Work Program. The same fate awaited the proposed new round unless commitments were backed by political will.

Mr. SMITH (United States) said that the CONTRACTING PARTIES faced a formidable challenge in addressing the problems facing the international trading system and in charting GATT's future course. The international trade situation was eroding and protectionist pressures were increasing. Recent international action in the fields of monetary policy and debt could not substitute for the badly needed improvements in the trading system itself, which were the contracting parties' responsibility.

He said that the estimated US trade deficit for 1985 of between US\$ 140 and 150 billion had created unparalleled protectionist pressures in his country. While the US President was convinced that the proper course of action was to open markets, not to close them, all countries shared the responsibility for maintaining and strengthening the trading system. For that reason, his country had been working vigorously to build a consensus in support of a new round of multilateral trade negotiations.

Important progress had been made in the two months since the Special Session. The CONTRACTING PARTIES now had to agree on the next step, which was the establishment of a Preparatory Committee. This should be done without preconditions and without prejudging the Committee's work, in order to proceed with the critical task of preparing for negotiations that would lead to trade liberalization and expansion.

Given the difficult international trade situation and the complex economic problems all contracting parties faced, it was not surprising that some had misgivings about starting new negotiations. However, in the US view, there was no choice but to start. The concerns of both developed and developing countries could and should be addressed as new negotiations got underway. The United States had clearly stated its interests for discussion in the Preparatory Committee, and recognized that treatment of developing countries should be discussed there as well. The Preparatory Committee should consider all issues proposed for inclusion in the new round, and should determine the subjects and organizational structure for the negotiations; once these were established, the Committee would make recommendations, perhaps in the form of a draft Ministerial declaration. Substantive work should continue in the various GATT committees which should assist the Preparatory Committee in its work.

As for the structure of the negotiations, one possibility would be to use negotiating models that had been successful in the past, such as the Trade Negotiating Committee (TNC) established to manage the Tokyo Round negotiations. The TNC had created negotiating groups and sub-groups under it to manage the negotiations on specific issues. Participation in all groups had been open, leaving each country free to choose for itself which issues it would negotiate. Countries could thus pursue negotiations on issues of interest to them, while the overall structure of the trading system was improved. The Preparatory Committee should consider the question of a standstill commitment, for which many contracting parties had stressed a need, so that a Ministerial meeting could take an appropriate decision on that matter.

In conclusion, he said that the trade problems contracting parties now faced could not be ignored or dealt with in a piecemeal fashion. It was essential to prepare for comprehensive new negotiations that addressed the interests of all countries, in the pragmatic and collaborative spirit that had traditionally characterized GATT. The United States recognized that there were differences among contracting parties on many substantive issues and welcomed the chance to address those differences through negotiations; however, such differences could not be allowed to affect a common agreement on the need to establish a Preparatory Committee and thereby get on with the real work of strengthening and improving the trading system for the benefit of all countries.

Mr. BOGUSLAW (Poland) said that his country shared the Chairman's assessment of the international economic environment. It was against this background that Poland evaluated GATT's present rôle and its future potential. A strong and consolidated GATT system was an important factor in any effort to reverse the trend of protectionism and the inequality and discrimination this caused in commercial relations.

He reiterated Poland's commitment to the 1982 Work Program as a general framework for GATT's work throughout the present decade. In this context, his delegation had taken a forthcoming attitude towards the proposal for a new round of multilateral trade negotiations. Consequently, Poland supported establishment, at the present Session, of a Preparatory Committee with a mandate flexible enough to accommodate the specific interests of all participants and to draft recommendations which would subsequently be considered at Ministerial level.

In conclusion, he said that Poland, like many other countries, insisted that contracting parties exercise the greatest possible restraint in their trade policies in order to increase the confidence indispensable to success in future negotiations.

Mr. LUYTEN (European Communities) said that the Community, taken as a whole, was continuing to make progress in its recovery from the 1982 recession. This process had been assisted by the impressive growth of the US economy during the previous two years. While unemployment remained a serious problem in the Community, modest overall improvement could be anticipated in 1986. As in 1984, the painful process of structural adjustment had continued, contributing to the high level of regional and youth unemployment. However, inflation had been curbed in most member States and in some, budget deficits were smaller and taxes had been lowered, thus stimulating growth. In short, and within the Community as a whole, there were reasonable grounds for optimism.

His delegation agreed with the Chairman's statement that there had been encouraging developments in the monetary and financial fields. The Community had said that determined, concerted action was required to improve the functioning of the international monetary system and the flow of financial and other resources to developing countries, and that results in those areas should be sought in parallel with results in the trade field. There now seemed to be a move in that direction, but the long-term success of those policies could not be assured without further modification in the inter-relationship among national, fiscal and monetary policies. The suggestions made at the September IMF/World Bank meetings in Seoul regarding the debt problem were encouraging, although implementation was still some way off and no quick fix could be expected. He recalled that in the case of several countries, the external indebtedness represented almost four times the level of their annual export receipts. The successful short-term management of the debt crisis in 1984/1985 had to be followed by measures aimed at a more durable solution; for many countries, this would require increased export earnings including more secure earnings from commodity exports.

The main effects of developments in the monetary and financial sector would take time to work through. While there had been a tendency in recent years to make trade policy problems the scapegoat for failure to agree in other areas, the CONTRACTING PARTIES had to begin now to contribute towards redressing the world economy. Individual action was one way to proceed. He recalled the series of rollback measures announced by the Community at the 1984 Session, and said that the Community's Council of Ministers had decided, along with several other developed countries, to implement all the remaining Tokyo Round tariff reductions by 1 January 1986, one year ahead of schedule. Further rollback possibilities were being examined. However, there was need as well for joint action to move the process leading to the new round of trade negotiations a step further. At the Special Session, the CONTRACTING PARTIES had given a clear signal to the world trading community that a preparatory process leading to the new round had been initiated; in the coming week, that signal should be confirmed by a firm stride forward.

The Community believed that services must have a place in the new round, and that such negotiations could lead to increased economic growth for the benefit of all contracting parties. However, this question was among those which would have to be decided by Ministers when they launched the new round. In preparing for the new negotiations, the Community saw standstill and rollback as autonomous elements which would be the first two stages of a three-stage process including negotiated trade liberalization. The Community stood by commitments undertaken at the 1982 Ministerial meeting; those commitments were not time-bound and were important to the credibility of the new round. One of the important issues for the Preparatory Committee would be an equitable standstill commitment to apply during the negotiations; such commitments had been applied during recent multilateral rounds in GATT. The treatment of developing countries within GATT would be another important issue for the Committee to consider. The Community believed that there was a case for a collective examination of how best to apply fully the provisions of Part IV and the Enabling Clause in an equitable and evolving way.

In concluding, he said that the Community was confident that a consensus would emerge at the end of the present Session. Despite contracting parties' economic difficulties, the ever-growing complexities of trade problems, and the difficulty of accommodating the interests of an increasing number of GATT members, the CONTRACTING PARTIES had to demonstrate that GATT could act as an effective and efficient organization in the 1980s and beyond, as it had done in the past. He recalled that the Community's Council of Ministers had offered to host the opening session of the new round in Brussels.

The meeting adjourned at 6 p.m.