

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)

Negotiating Group on Functioning  
of the GATT System

NEGOTIATING GROUP ON FUNCTIONING OF THE GATT SYSTEM

Meeting of 7 April 1987

Note by the Secretariat

Appointment of the Chairman

1. Mr. Julius L. Katz of the United States and Ambassador Julio Lacarte-Muro of Uruguay were appointed Chairmen for the initial phase of the negotiating groups on the Functioning of the GATT System and Dispute Settlement. They were appointed on the understanding that Mr. Katz would have the primary responsibility for the Functioning of the GATT System and Mr. Lacarte for Dispute Settlement.

First examination of issues on the basis of proposals by participants

2. Many delegations emphasized the importance they attached to the satisfactory functioning of the GATT system. They considered that the work of the Group could make an important contribution to the effective operation of the international economy and also to the satisfactory conclusion of the Uruguay Round. Several of these delegations expressed the view that the GATT system was no longer functioning satisfactorily and that it had proved unable to meet the challenges and difficulties of international trade relations in recent years. The view was expressed that poor functioning of the system reflected in large measure lack of political will among contracting parties, but it was also stated that structural weaknesses in the institution needed correction. In this connection, certain delegations suggested that the responsibilities and the resources of the secretariat should be strengthened.

3. A number of delegations noted that the mandate of the Group was concerned essentially with institutional and organizational aspects of the functioning of the GATT. This meant that the Group's work was distinct from the work of other negotiating groups, and this might facilitate the early implementation of results in this area. Others considered that the negotiations on functioning of the GATT system were closely related to all aspects of the Uruguay Round and that the Group should take account of the progress of work in other groups. One delegation said that the Group's work

should be placed firmly in the context of the Punta del Este Declaration as a whole and also of the conclusions read out by the Chairman at the time of the adoption of the Declaration. In this connection, it was necessary to ensure that the GATT system operated in such a way that there was an effective balance of rights and obligations among contracting parties. Some delegations felt that work on the functioning of the GATT system needed to address the issue of special and differential treatment for developing countries, since in their view the relevant GATT provisions had not been fully respected.

4. In regard to surveillance, the delegation of Australia circulated a document (MTN.GNG/NG14/W/1) setting out its views on how the GATT's role in this area might be enhanced. Many delegations regarded this document as a useful starting point for discussions, even though in some cases they were not fully in agreement with the views expressed in it. There was widespread agreement that there was room for the expansion and improvement of surveillance activities in the GATT. It was suggested that an adequate system of surveillance should be preventive in the sense of operating as an "early warning system", but that surveillance should also be used to ensure compliance with contractual obligations on a continuing and systematic basis. Multilateral surveillance activities should also provide a counter-weight to pressures from domestic special interest lobbies. It was suggested that a proper system of notifications and full transparency would partly obviate the need for surveillance, but another view was that notification procedures and transparency could not by themselves provide the accountability inherent in appropriate surveillance arrangements.

5. A view expressed by some delegations was that for surveillance to be effective it must be seen in terms of evaluation and not judgement. The latter possibility was provided for under formal dispute settlement procedures. It was also suggested that the approach to surveillance must be collective, in recognition of shared responsibility for a set of contractual arrangements. Various suggestions were made as to how the trade policies of contracting parties might be monitored and evaluated in terms of their impact on international trade. Certain delegations stressed the view, however, that whatever arrangements were made, it should be borne in mind that such arrangements did not carry any implication of contractual commitments additional to those already accepted.

6. A number of delegations said that in their view there was an imbalance or asymmetry in the degree of surveillance to which different contracting parties were at present subject, and that this should be addressed by the Group. There were differing views, however, as to where the asymmetry lay and which contracting parties were at a disadvantage as a result of it. Another view was that it was unhelpful to stress the asymmetry of existing arrangements and that in practice different levels of surveillance for different contracting parties were largely a reflection of the relationship between the trade policies of particular contracting parties and their obligations under the General Agreement. Finally, it was suggested that an important test of the feasibility of the kind of improved surveillance arrangements that were being proposed, for example by Australia, would be the level of respect shown for the standstill and rollback commitments undertaken in the context of the Uruguay Round.

7. While the discussion regarding the improvement of the overall effectiveness and decision-making of the GATT as an institution focussed largely upon the question of Ministerial involvement, it was noted that the latter was only one aspect of much wider issues arising from this part of the Group's mandate. Regarding Ministerial involvement, a number of delegations expressed appreciation to the delegation of Australia for the proposals it had circulated on this subject (MTN.GNG/NG14/W/2). Several delegations emphasized the importance of regular Ministerial involvement in GATT work as a means of providing political impetus as well as better mutual understanding. It was also felt that the GATT could benefit from institutional arrangements which would provide adequate opportunities for communication between trade Ministers and their counterparts responsible for financial and monetary matters. No delegation which spoke on this subject was opposed to greater Ministerial involvement in the work of the GATT, but views differed as to the appropriate nature of such involvement. Some delegations felt that Ministers should be able to meet in the GATT at regular intervals in the same fashion as in other institutions. Some other delegations felt that regular meetings of Ministers risked becoming mere routine and that they should take place only when important decisions had to be taken. There were also differing views as to how far meetings of Ministers should be prepared in advance, as opposed to providing for wide-ranging discussion and the possibility of negotiation. Many delegations were of the view that any initiative to increase the involvement of Ministers in the GATT's work should be taken only after careful consideration of all aspects of the matter.

8. Some delegations supported the Australian idea that the Consultative Group of Eighteen (CG.18) could provide a model for a Ministerial level Steering Group. Others questioned whether the CG.18 or any body of limited membership would be perceived as being representative, and what authority such a body might be expected to enjoy. It was however suggested that the problem of restricted membership might be reduced if a Ministerial steering Group were required to report to the CONTRACTING PARTIES meeting at Ministerial level.

9. Many delegations who addressed the question of strengthening the relationship between GATT and international organizations responsible for monetary and financial matters considered that progress in the fulfilment of this part of the Group's mandate would make a useful contribution to policy-making in the trade, monetary and financial spheres. A number of delegations stressed, however, that it was important to respect the separate institutional competence of the organizations concerned. A particular view expressed was that while undoubtedly there were links between trade, financial and monetary policy, it was mistaken to expect trade policy to solve monetary and financial problems, just as monetary and financial policy should not be the focus in addressing trade problems. A number of delegations referred to the problem of excessive international indebtedness and considered that improved institutional coordination could assist in dealing with the matter. Reference was also made to problems associated with volatile exchange rates, and in particular to the effect of exchange rate changes on tariff bindings under the GATT. A view was expressed that discussions in UNCTAD VII would throw useful light on these matters.

10. The Chairman expressed the view that it would be useful to focus in particular upon item (ii) of the Group's mandate, since in some ways this was the centre-piece of the work and had direct links with items (i) and (iii). He thanked the delegation of Australia for its written proposals and urged all delegations wishing to do so to put forward proposals as soon as possible. It was agreed that the Secretariat would provide information for the next meeting on the following subjects: (i) all existing surveillance functions in the GATT; (ii) the past history of the involvement of Ministers in the GATT's work; (iii) the history of the CG.18 and of any previous attempts to involve officials at senior or political level from capitals in the GATT's work; (iv) the respective mandates of the GATT, the International Monetary Fund and the World Bank, the institutional relationships between the GATT and the other two organizations and the institutional arrangements for the involvement of Ministers in the work of the IMF and the IBRD.

#### Observer Organizations

11. The Chairman noted that a number of international organizations had sought observer status in the Uruguay Round or in specific Negotiating Groups. Consultation had taken place among delegations on this matter and the GNG would take a decision at its next meeting on the requests received, taking into account any views expressed in the Negotiating Groups in this regard. One delegation proposed that the requests of the International Monetary Fund and the World Bank for observer status in this Group should be approved following examination by the GNG. Two other delegations made reservations on this proposal, questioning how these organizations might be expected to contribute to the work of the Group, which was concerned with institutional issues in the GATT, other than in providing certain information.

#### Other business

12. It was agreed that the Secretariat would prepare a short factual note on the proceedings of each meeting.

13. It was agreed that the next meeting of the Group would take place in the week beginning 22 June 1987.