

MULTILATERAL TRADE
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THE URUGUAY ROUND

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Negotiating Group on Functioning
of the GATT System

COMMUNICATION FROM CANADA

The following communication, dated 23 June 1987, has been received from the delegation of Canada with the request that it be circulated to members of the Group.

The objective of the Uruguay Round to improve the functioning of the GATT system in order to restore its integrity and credibility is critical.

The multilateral trading system has in recent years come under profound strain. It is in the interest of all that the system be strengthened. In this sense, adoption of measures to that end should not be perceived as "concessions" (such as tariff or other measures), but rather mutually beneficial steps in the interest of all contracting parties.

This communication comprises two parts. The first is a general overview of the issues before the Group. The second follows up on the suggestion made by the Chairman at the last meeting of this Group to focus on ministerial involvement. In this respect, Canada sets out why it believes increased ministerial participation is important, what the ministerial mandate might be and the meetings in which Ministers might participate. Canada attaches importance to ministerial involvement during the MTN but its communication is focussed on the rôle of Ministers in the GATT.

I. Objectives

Some of the broad objectives that might be pursued in this area of institutional reform could include:

- strengthening the evolution of the GATT from an organization administering a trade agreement to a more trade policy oriented and decision making organization;
- enhancing the rôle of the GATT in managing international trade policy questions through increased ministerial involvement;
- improving the GATT's trade policy surveillance function and the associated notification procedures to facilitate more regular review of developments in trade policies and structural adjustment;

- ensuring more coordination in the management of the international system for trade (GATT) and finance (IMF/IBRD); and
- strengthening the GATT secretariat in order for it to carry out its expanded functions.

We believe it is important to pursue these objectives for the following reasons:

- **Ministerial involvement:** Increased ministerial involvement is one of the key means to improve the effectiveness and decision-making capacity of the GATT, and to allow Ministers and the GATT to increase their contribution to greater coherence in global economic policy-making. In contrast to regular meetings of Ministers in other international economic institutions (e.g. IMF), the GATT holds ministerial meetings only occasionally. Canada believes this Group could begin an active examination of various proposals such as periodic meetings of GATT CONTRACTING PARTIES at ministerial level and the establishment of a standing ministerial-level body of limited and representative membership. Any such arrangements would need to reflect the particularities of the GATT and international trade (and not be simply copies of other international organizations).
- **surveillance of trade policies:** While the GATT secretariat already produces a regular compilation of trade-restrictive measures, its ability to monitor and analyse the impact of trade policies and practices and structural adjustment processes is currently relatively weak compared to other international economic institutions in their respective areas. Consequently, we believe that member countries' trade policies need to be subject to closer surveillance and we endorse an expansion and improvement in the GATT's responsibilities, which would entail secretariat-initiated reviews.

The issue of surveillance of trade policies is quite possibly the fundamental question before this Negotiating Group. The extent to which GATT becomes a truly policy-oriented institution will affect the extent to which GATT's international stature is enhanced and also the nature of GATT's relationship with the IMF and the IBRD. The consideration of trade policy surveillance will require us to assess what the follow-up to such surveillance ought to be. Would the basic purpose be to draw conclusions for future GATT work? Or, would the CONTRACTING PARTIES be expected to make recommendations to the government of the member country whose trade policy is being examined? Clearly, this will also require us to examine the relationship of trade policy surveillance and any obligations accepted in this respect with the rights and obligations of contracting parties under the GATT and the rôle of the dispute settlement system.

- Strengthening GATT's relationship with other international economic organizations: We have traditionally supported a strong international trade and financial system underpinned by multilateral institutions, namely the GATT, the IMF and the IBRD. Each institution has its separate *raison d'être*. While we do not support any formal linkage of debt and monetary reform and the GATT, these issues are increasingly interdependent. We believe cooperation amongst international economic organizations should be strengthened with a view to ensuring that these bodies work toward common objectives. The Director-General of the GATT already takes part formally in the semi-annual meetings of the joint IMF/IBRD Development Committee. For example, there could be periodic joint meetings of these bodies. GATT officials could be involved in the regular Article IV consultations conducted by the IMF, as well as, possibly, in the more sensitive negotiations which precede approval of a stand-by arrangement in the upper tranches (i.e. Article V). In addition, GATT officials could also participate in relevant IBRD activities, particularly in view of its recent increased emphasis on structural adjustment lending. The participants might also consider accepting the principle of giving developing country participants credit in the MTN for trade liberalization measures taken under IMF/IBRD programmes, provided a renewed commitment is given in the MTN by these participants.

- Strengthening the GATT secretariat: Clearly, if the functions of the GATT are to be expanded along the lines being considered, it will be necessary at a later date to identify the nature of the additional resources which would be required, including staffing. For example, it may be necessary to augment the secretariat's capacity to analyse world economic trends and the implications for trade policy or to assess the impact of technological changes in specific sectors.

II. Ministerial involvement

Canada does not believe that it will be possible to meet the objective of strengthening the GATT system without increasing ministerial association with the institution. The GATT, since its establishment, has played a central rôle in the maintenance and liberalization of the multilateral trading system. Ministers, through regular meetings in the GATT, should be able to have a political-level exchange on the problems of handling trade issues and to develop a mutual understanding of each other's views. There is also a need for national governments to respect the GATT and fully take into account international trade implications when adopting domestic economic measures. Consequently, increased ministerial involvement is equally important to enhance national understanding of, and respect for, the GATT. The holding of ministerial meetings on a regular basis would, in our view, allow Ministers to meet their objectives and avoid the problem of unduly raising expectations concerning the results as has occurred in the past when such meetings were only held infrequently.

- There are a number of options which could be considered in order to "institutionalize" ministerial involvement in the GATT. It is for consideration whether we could simply decide that the session of GATT CONTRACTING PARTIES should meet at ministerial level, for example every year or two years, and/or that the CG.18 meet at ministerial level annually. This approach has certain advantages in that the bodies, their terms of reference and their composition are already established.

- Concerning CG.18 membership, we could examine whether its membership is appropriately representative to reflect participation by contracting parties in world trade and sufficiently limited in size to facilitate ministerial discussion. In this respect, we may wish to develop criteria for determining representative membership and whether members ought to represent groups of countries on a constituency basis.

- While working within the basic parameters of this approach, we may wish to explore whether meetings of the CG.18 at ministerial level would fulfill the rôle we wish it to play with respect to its terms of reference (TORS).

The existing TORS provide a solid basis for examining whether improvements may be required. The CG.18 TORS provide for:

- (a) following international trade developments;
- (b) forestalling of sudden disturbances that could represent a threat to the multilateral trading system; and
- (c) examining the international adjustment process and the coordination, in this respect, between the GATT and the IMF.

- These TORS provide a good basis for Ministers to engage in the political-level exchange on trade policies and issues referred to earlier and to manage increased cooperation with the other international organizations responsible for monetary and financial matters (i.e. the IMF and IBRD).

- In following international trade developments, we believe it important for Ministers to also have a forward-looking mandate such as deciding on the general orientation and future work programmes of the GATT. To facilitate such discussion, it may well be useful for the Director-General to prepare a strategic report on GATT activities and the international trade environment which would reflect the Director-General's concerns and suggestions for consideration by Ministers.

- In addressing the mandate of ministerial meetings, we believe it would be useful to consider a split in the functions between the ministerial agenda and the regular GATT business. For example, Ministers could concentrate on "decisions" to give future direction while "decisions" in the contractual sense, such as concerning regular reports, could be handled at the official level.

- These are a few ideas but it might be useful also to examine the proposals considered during the discussions to establish an international trade organization.