

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED
MTN.GNG/NG14/W/12
14 August 1987
Special Distribution

Group of Negotiations on Goods (GATT)

Negotiating Group on Functioning
of the GATT System

THE 1954/55 REVIEW SESSION

Note by the Secretariat

1. At the second meeting of the Group the secretariat was asked to prepare a note on the decisions or other action taken by the CONTRACTING PARTIES at their 9th Session, with reference to relations between the GATT and the International Monetary Fund and to Organizational and Functional Questions.

2. The 9th Session, which ran from 28 October 1954, to 18 March 1955, performed the normal business of the annual Session but was in addition a Review Session, the only one in GATT's history. It had been recognized at the 8th Session in October 1953 that progress towards the objectives of the General Agreement was being impeded because "international trade continues to be restricted by high tariff barriers and by widespread application of other restrictions". It was accordingly decided to convene a Session:

"(a) to review the operation of the General Agreement upon the basis of the experience gained since it has been in provisional operation, and (b) in the light of this review to examine to what extent it would be desirable to amend or supplement the existing provisions of the Agreement and what modifications should be made in the arrangements for its administration, in order that the Agreement may contribute more effectively to early progress towards the attainment of its objectives".

Contracting parties were invited to submit written proposals and suggestions. It was further decided that this Review would be deemed to fulfil the requirements of GATT Article XXIX:3, which stated that if by September 30, 1949 the Havana Charter had not entered into force, the contracting parties should meet before December 31, 1949 to agree whether the General Agreement should be amended, supplemented or maintained.

3. The outcome of the Review Session, in the form of the reports of the four Working Parties which were set up to carry out the Review, is contained in BISD 3rd Supplement, pages 170-256. Working Party 1 dealt with Quantitative Restrictions; Working Party 2 with Schedules and Customs Administration; Working Party 3 with Other Barriers to Trade and Working Party 4 with Organizational and Functional Questions. The four reports were adopted by the CONTRACTING PARTIES.

4. The Review Session resulted in the amendment of a considerable number of GATT provisions (notably those of Article XVIII, which in its new form recognized the special nature of the balance-of-payments problems of developing countries and also gave them increased flexibility in the use of tariffs and other measures for the purpose of economic development), new disciplines relating to export subsidies and the institution of regular consultations on quantitative restrictions maintained for balance-of-payments reasons. Apart from the addition of Part IV in 1964, these are the only important amendments to the General Agreement since it was drafted. In other respects the results of the Session were somewhat less than had been hoped. In particular, the attempt to create an "Organization for Trade Co-operation" which would have provided a firm legal and constitutional base for the GATT, bringing to an end its provisional status, did not succeed, even though Working Party 4 had been able to agree, and the contracting parties to adopt, a Draft Agreement on the OTC.

5. The following paragraphs deal with GATT/Fund relations and Organizational and Functional Questions.

Relations between GATT and the International Monetary Fund

6. The Working Party on Quantitative Restrictions, which considered in considerable detail the question of trade restrictions introduced for balance of payments reasons, set up a special sub-group on GATT/Fund relations. The Report of the sub-group (BISD3, pages 195-205) defines the "nature of the problem" as the difficulty of defining whether a government measure is financial or trade in character, from which it follows that certain measures fall under the jurisdiction of both the Fund and the CONTRACTING PARTIES. In general, however, the Group felt that the more important problem was not that of defining the respective jurisdictions of the CONTRACTING PARTIES and the Fund but that of establishing more effective machinery for consultation in accordance with the provisions of Article XV. They saw this as requiring both the pursuit of coordinated policies in relation to the Fund and the GATT by those Governments which were members of both, and better liaison between the two organisations themselves.

7. The sub-group put forward five recommendations which were accepted by the Working Party on Quantitative Restrictions and subsequently by the CONTRACTING PARTIES. The recommendations were as follows:

- (a) The CONTRACTING PARTIES should draw the attention of the Fund to their intention to have the GATT staff, in appropriate cases and where practicable, discuss with the Fund staff trade matters which had implications for exchange policy, and should inform the Fund that the GATT staff would be prepared, at the request of the Fund, to enter into similar discussions, where practicable, on the trade effects of exchange matters under Fund consideration.
- (b) Pursuant to this intention, the Executive Secretary should be authorized to work out with the Fund procedures for ensuring the maximum practicable degree of co-operation between the two staffs on matters of mutual concern to the CONTRACTING PARTIES and the Fund.

- (c) The Intersessional Committee should be authorized to conduct such consultations with the Fund as might seem appropriate in pursuance of the objectives of paragraph I of Article XV.
- (d) The CONTRACTING PARTIES should draw the attention of the International Monetary Fund to the new arrangements with respect to the Intersessional Committee, should explain that this would make consultation between the CONTRACTING PARTIES and the Fund easier and more expeditious than hitherto, and should express the hope that this should improve progressively the efficiency of consultation both ways between them.
- (e) The Executive Secretary should be requested to pursue consultations with representatives of the Fund with a view to preparing a joint draft of a formal agreement between the Fund and the proposed Organization for consideration by both parties at a suitable future date.

8. The recommendations were drawn to the attention of the Fund by the Executive Secretary in April 1955, and discussed informally by the staffs of the Fund and Bank over the following 18 months. The main consequence was the establishment of the arrangements for transmission to the GATT Secretariat of certain IMF documentation, especially in connection with consultations under Articles XII and XVIII:B, which continue essentially unchanged to the present day. These arrangements were noted and approved by the CONTRACTING PARTIES at the Eleventh Session in October 1956 (L/533 and SR.11/3). The establishment of a secretariat liaison office in Washington D.C. was included by the Executive Secretary in his budget proposal for 1956 (L/423), but was deferred for budgetary reasons. Recommendation (e) was, by agreement at the Tenth Session in November 1955 (SR.10/8), set aside pending the expected entry into force of the Organization for Trade Cooperation. Neither the proposal for a liaison office nor that for a formal agreement seems to have been discussed again.

Organizational and Functional questions

9. The Report of the Working Party on Organizational and Functional Questions appears in BISD3, pages 231-252. This Working Party was established to consider specific proposals relating to the administration of the Agreement, legal questions and the scope of the General Agreement. Its Report contains two sections of particular interest: one on the various proposals made relating to GATT Articles and legal questions, with the Working Party's recommendations; and one containing a commentary on the Draft Agreement on the Organization for Trade Co-operation whose text appears in BISD Vol.1 (Revised)

10. In considering the scope of the Agreement establishing the OTC the Working Party reviewed proposals for the inclusion within its mandate of a number of subjects not covered by the General Agreement (but many of which had figured in the Havana Charter). Among these, for example, were restrictive business practices, freedom of establishment, double taxation and monopolistic practices in transport and shipping. In general the Working Party found that there was insufficient support to bring these within the scope of the Agreement. On commodities, there was a proposal to insert in the General Agreement provisions along the lines of Chapter 6 of the Havana Charter. This was not generally supported but the Working Party did establish a new text of Article XX:1(h), with an Interpretative Note.

11. In the event the Organization for Trade Co-operation did not come into existence because the Protocol which would have established it failed to receive Congressional approval in the United States.