

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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COMMUNICATION FROM CANADA

The following communication, dated 15 September 1987, has been received from the delegation of Canada with the request that it be circulated to members of the Group.

CANADIAN STATEMENT TO THE MTN NEGOTIATING GROUP ON GATT ARTICLES -
BALANCE-OF-PAYMENTS PROVISIONS

Canada supported the suggestion made at our last meeting for an examination of the various GATT provisions dealing with trade restrictions for balance-of-payments reasons. These provisions were last examined almost a decade ago. They obviously could benefit from discussion and analysis in this group where we are seeking to reinforce various GATT Articles. We need to consider the GATT provisions against the realities of today and the needs of the next decades.

No one disputes that trade restrictions are harmful to world economic growth and development. It is also increasingly being recognized that trade restrictions are the least-effective means for dealing with payments difficulties. The 1979 Declaration records the conviction of the CONTRACTING PARTIES "that restrictive trade measures are in general an inefficient means to maintain or restore balance-of-payments equilibrium". Indeed, such restrictions are more and more shown to become part of the problem, rather than part of the solution. At the same time, it is generally agreed that the use of trade restrictions for balance-of-payments reasons is widespread and that they have a significant impact on trade.

The objective of the current trade negotiations, which we all share, is to enlarge the scope of trade liberalization. We need to ensure that all GATT provisions encourage and support this objective. Where there are exceptions allowed to the prevailing disciplines on the use of trade restrictions, these must be well-founded and consistent with the longer-term attainment of trade liberalization.

In this regard, the secretariat is to be commended on its comprehensive background paper on the use of Articles XII, XIV, XV, and XVIII. It provides a useful basis for discussion and analysis.

As the secretariat paper clearly points out, the GATT provisions require that contracting parties applying balance-of-payments restrictions "shall progressively relax them as conditions improve" (XII:2(b) and XVIII:11). However, many countries have maintained restrictions over a considerable period as seen from the tables annexed to the paper.

The paper raises a number of questions which should be examined further and could, in fact, become an agenda for our discussions. Addressing these questions would ensure a thorough review of GATT disciplines in the area of trade restrictions for balance-of-payments reasons:

- Is there still a need for contracting parties to have the possibility of using trade restrictions for balance-of-payments reasons given the availability and greater effectiveness of other adjustment mechanisms, including exchange rates, which have less distorting effects on overall economic growth and trade?
- If so, are the current rules and procedures fully reflective of the existing world trade, economic and payments system? Do they provide a sufficient degree of surveillance over the use of trade restrictions for balance-of-payments reasons?
- Should we continue to permit derogations from Article XI, or should trade restrictions be limited to the use of measures which have the least distorting effect on prices and resource allocation?
- Should surveillance cover balance-of-payments measures on the export side?
- Should trade restrictions have time-limits and be degressive in nature?
- Is there a need for greater monitoring of the use of trade restrictions, both before and after consultations? Are the current provisions regarding notification adequate?

The secretariat paper also covers the rôle of the IMF in the consultation process. In our view, the analysis supports the need for closer co-operation between the GATT and the international financial institutions. This is particularly important in the balance-of-payments area, given the increasing interlinkage of trade, economic and finance policies. It is also very important in all areas of GATT responsibility. The question of ensuring greater complementarity between the activities of the Fund and the World Bank is being examined in another group. Our work should, however, take account of these and other discussions in the FOGS Group, particularly those on strengthening the surveillance and monitoring of trade policies and practices.

In examining the balance-of-payments provisions of Article XVIII, we will also want to keep in mind the other provisions that provide for derogations from Article XI and the need to ensure that these provisions too act to support trade liberalization and world growth and trade and provide an effective means of surveillance. In this regard, the secretariat paper again serves as a useful starting point.

Canada looks forward to more detailed discussion in this group on the issues relating to Articles XII, XIV, XV and XVIII. We are currently considering the possibility of submitting more detailed comments and suggestions in advance of our next examination of these Articles.