

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG14/3
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Group of Negotiations on Goods (GATT)
Negotiating Group on Functioning
of the GATT System

MEETING OF 28 SEPTEMBER 1987

Note by the Secretariat

1. The Negotiating Group on Functioning of the GATT System held its third meeting on 28 September 1987 under the chairmanship of Mr. Julius L. Katz (United States). The Group adopted the agenda set out in GATT/AIR/2461.

A. Continuation of first examination of issues on the basis of proposals by participants

2. The Chairman recalled that the Group had agreed that the question of cooperation between the GATT and other international organizations responsible for monetary and financial matters should be the first subject of discussion at this meeting (see MTN.GNG/NG14/2, paragraph 12). He called the attention of the Group to four documents relevant to this part of its discussion: submissions from Switzerland (MTN.GNG/NG14/W/7) and the United States (MTN.GNG/NG14/W/9) as well as statements made by Canada and Jamaica at the second meeting of the Group and reproduced in MTN.GNG/NG14/W/10 and W/11 respectively.

3. The Group also had before it a proposal by New Zealand (MTN.GNG/NG14/W/13) principally covering the issues of notifications, international and domestic surveillance and Ministerial involvement and a note by the Secretariat on the decisions or other action taken by the CONTRACTING PARTIES at their 9th Session (the 1954/55 Review Session) with reference to relations between the GATT and the International Monetary Fund and to organizational and functional questions (MTN.GNG/NG14/W/12).

4. The delegations of Canada, Switzerland and the United States referred to their proposals in this area and the United States said that it would be submitting a negotiating proposal at the next meeting of the Group. The importance of the links between trade, monetary and financial policies was generally recognized, but views differed on the implications of these links for relations between GATT and the international financial organizations, as well as for surveillance of trade policies by GATT. Some delegations said that closer cooperation in a wider range of areas between GATT and the international financial organizations would strengthen the coherence of international economic policies and ensure that trade policies were given

their proper place in macroeconomic policy as a whole: the expertise of GATT in trade policy questions could contribute to the operations of the IMF and IBRD just as the expertise of these organizations in the areas of monetary and financial policies could contribute to the work of the CONTRACTING PARTIES. In this context, a connection was made with the review of the provisions of the General Agreement concerning balance-of-payments restrictions, taking place in the Negotiating Group on GATT Articles. It was pointed out that since exchange and trade measures could often substitute for one another, the division of responsibilities between GATT and the IMF for supervising balance-of-payments restrictions was not always clear: with regard to trade policies, the objectives of the different bodies should be to work towards the same ends. The aim of the negotiations in this Group should be twofold: to make the GATT, as an organization, more oriented to discussion of trade policies, through more rational surveillance mechanisms and greater Ministerial involvement, and to promote better operational cooperation between the three secretariats through a fuller exchange of information and closer institutional links. These changes would also imply a further strengthening of the capacity of the Secretariat.

5. Other delegations stressed the difference in nature between GATT and the international financial organizations. The contractual nature of GATT rights and obligations and the rôle of the CONTRACTING PARTIES implied a different rôle for the Secretariat from those of the Fund and Bank: the aim of the General Agreement was to regulate trade rules and not trade itself. The question whether links should be reinforced between the organizations as such or between the executive heads of the secretariats was a delicate one. It was stressed that the General Agreement was a contract in which all members were equally involved according to their differing levels of trade and development.

6. Other delegations emphasized the need to keep a clear distinction between the surveillance functions exercised by the international financial organizations, particularly the IMF, and the development of monitoring of trade policies by GATT. Although it was understood that all member states of the Fund were subject to regular surveillance, the difference between the closer surveillance exercised over debtor countries' policies and the looser monitoring of others underlined the need for caution in any closer links with the international financial organizations. The existing legal cooperation framework between GATT and the IMF was spelled out in Article XV: inter-secretariat cooperation was also well established. The authors of the various proposals should give more details on their objectives. Attention should also be paid to the work undertaken in and links with other relevant organizations including UNCTAD. GATT surveillance of trade policies should be applied to all contracting parties and should not become a means of strengthening pressures on developing countries in relation to their trade policies. Any suggestions on closer institutional cooperation should be based on objectives relating to the expansion of trade, promotion of economic development and solving the financial problems of indebted developing countries. Studies should be

made of the links between international trade and financial flows and any proposals put forward should aim at expanding the trade and financial possibilities of developing countries. The competence of GATT in the field of trade policies should not become confused with those of the Fund and Bank whose principal fields of operation were in monetary and financial policies.

7. This led into a wider discussion of the objectives of surveillance of trade policies by GATT in which it was emphasized that a general review mechanism for trade policies of all contracting parties in the light of their GATT obligations was desirable, with the aim of improving the overall operation of the trading system. The New Zealand delegation explained that its proposals in MTN.GNG/NG14/W/13 were intended to synthesize a number of ideas concerning international and domestic surveillance. Many of these ideas had been proposed in the report "Trade Policies for a Better Future" (the Leutwiler Report). The aim was to analyze the effects on the trading system of national decisions and reach criteria for improving the structure of such decision-making. More coherent linkages between the fields of operations of the CONTRACTING PARTIES in respect of trade policy and of the members of the international financial organizations should result from the Group's deliberations.

B. Consideration of the Group's work programme for the remainder of the initial phase

8. It was agreed that the Group would continue its discussions on the three elements of its negotiating objectives. Although these would initially focus on the question of surveillance, it was clear that further discussion would be necessary on all aspects of the negotiating objectives. The secretariat was invited to prepare a document summarizing points raised relating to the question of surveillance.

C. Other business, including arrangements for the next meeting of the Negotiating Group

9. It was generally agreed that three to four more meeting days would be necessary before the end of 1987 to conclude the initial phase. Provision could also usefully be made for informal meetings and consultations to be held within the meeting schedule.