

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG14/4
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Special Distribution

Group of Negotiations on Goods (GATT)
Negotiating Group on Functioning
of the GATT System

MEETING OF 3 AND 4 NOVEMBER 1987

Note by the Secretariat

1. The Negotiating Group on Functioning of the GATT System held its fourth meeting on 3 and 4 November under the chairmanship of Mr. Julius L. Katz (United States). The Group adopted the agenda set out in GATT/AIR/2493.

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

2. The Group considered all three aspects of its negotiating objectives laid down in MTN.GNG/5.

3. With respect to negotiating objective (i), the Group reviewed an informal discussion paper by the Chairman concerning a trade policy review mechanism. This paper contained suggestions for discussion on such aspects as the objectives and country coverage of trade policy reviews, notification and reporting procedures, the nature and design of the reviews, and how reviews might be reported to the CONTRACTING PARTIES. The Chairman explained that the aim of the paper was to promote discussion of the issues involved in reviewing individual contracting parties' trade policies and to seek common understandings on such a review process. A synoptic paper by the Secretariat summarizing views expressed in previous submissions and discussions on surveillance in the Group had also been circulated in document MTN.GNG/NG14/W/14/Rev.1.

4. Members of the Group generally welcomed the Chairman's discussion paper. Some members felt that a complete discussion of this issue would also depend upon progress in other Negotiating Groups and the types of undertakings which would result from them. It was recalled that the negotiating objective was to develop common understandings and arrangements. The idea of a regular trade policy review mechanism within GATT, as part of the collective management of the multilateral trading system, was widely supported. However, it was stressed that the objective of such a review process should be, as stated in the discussion paper, to promote greater transparency in and understanding of contracting parties' trade policies. Many participants emphasized that it should be clearly distinguished from the surveillance or enforcement of individual GATT obligations or of dispute settlement procedures, which should continue to

be dealt with in the appropriate fora. It was suggested that the review mechanism was to contribute to the collective management of the trading system by the CONTRACTING PARTIES. Nevertheless, the extra transparency resulting from the review process should lead to a strengthening of the observation of GATT provisions by all contracting parties. Some participants called attention to the asymmetry perceived in existing surveillance and review mechanisms and stated that the proposed new review process, which need not be additional to existing surveillance procedures, should correct this imbalance. The aim should be to enhance and rationalize GATT surveillance of contracting parties' trade policies.

5. It was generally recognized that all contracting parties should be required to report regularly on their trade policies and should be subject to periodic reviews. The frequency of such reviews for individual contracting parties or trading entities could, however, be related to indicators such as their importance in international trade. This was linked by some participants with the objective of assessing the impact of trade policies on the multilateral trading system. Consideration would need to be given to avoiding possible duplication of consultation and review provisions in cases where contracting parties were already consulting under specific provisions of the General Agreement such as balance-of-payments provisions. One participant suggested that least-developed contracting parties could be excluded from the review process. In connection with notification, some participants expressed concern about the burden represented by the increasing number and overlapping nature of GATT notifications and suggested that the introduction of a review mechanism should also give an opportunity for these to be rationalized. The possibility of having reverse notifications on individual contracting parties which had not fulfilled their reporting requirements was also raised.

6. Participants generally agreed that annual reports by contracting parties should be based upon an agreed format, in order to ensure similar coverage and content. It was suggested that full reports could be made in review years, and updated information supplied on major trade policy decisions taken in intervening years, in order not to create too great a burden of reporting. Differing views were expressed on whether "impending" trade policy measures should be included in the reports along with measures introduced in the past year.

7. Views also differed regarding to the type of body which should conduct country reviews. Some participants agreed with the concept expressed in the Chairman's paper of a small group of reviewers appointed from among government representatives. Others felt that it was important for the sake of transparency and understanding to conduct the reviews in an open-ended type of committee: some thought that this might replace the present special Council meetings. Still others thought that it might be possible to combine these approaches by creating an open-ended body in which a limited number of delegates would be chosen to prepare and conduct the discussion. With respect to the basic documentation required for reviews,

most participants thought that this should be the material supplied by the contracting parties concerned according to the agreed format. The part to be played by the Secretariat in preparing reviews would need to be examined more closely and the staffing implications of the review process would also have to be worked out. Some delegations felt that it would be useful and appropriate to supplement basic country documents with factual Secretariat background papers. There were differing views on what such papers might include; in particular, on whether they should include any assessment by the Secretariat of a country's policies. Most participants felt that, since the aim was to create greater transparency and understanding of trade policies among the contracting parties, it would not normally be appropriate to carry out the review in the country concerned: reviews should generally be conducted in Geneva, with the presence of relevant officials from the capital of the country under review.

8. There was general acceptance that the focus of country reviews should be on achieving greater understanding of governments' policies and practices and their impact on the functioning of the multilateral trading system. Some delegations stressed that reviews should be as broad as possible in scope; trade policy should be set in the context of overall macroeconomic policies. The effects of trade policies on the domestic economy should be reviewed as well as their impact on the multilateral trading system, as proposed in the New Zealand submission (MTN.GNG/NG14/W/13). The point was also made that reviews should cover the external trading environment facing each country as well as its own trade policies. Attention was also called to the "preventive" or "early warning" aspect of such a review process. Some participants felt that the Secretariat should take an active part in preparing materials and questions for the review, including possible data collection in the countries under review, and in formulating an assessment of the impact of a consulting country's trade policies. Others thought that the Secretariat's rôle should be more limited, e.g. to compiling the questions submitted to the consulting country by other contracting parties.

9. Differing views were expressed on the nature of the reports to be made by the review body and the forum which would receive the reports. Some participants felt that reports by the review body should contain conclusions drawn up by the body itself. Others agreed that conclusions should be proposed for adoption. Others again wondered whether the need to draw conclusions on a consensus basis could lead to blocking of the consultation process. Others saw a need for further discussion of what kind of conclusions might be drawn and whether the review body itself should draw conclusions; in particular, the question was raised of the way in which such conclusions might relate to existing GATT rights and obligations. Clarification was needed concerning the meaning of the phrase "the principles and objectives of the General Agreement". In this context one view was that conclusions should be descriptive rather than prescriptive in nature and should be drawn without prejudice to contracting parties' GATT obligations. It was reiterated that the objective was

transparency, rather than enforcement of obligations. Still others reserved their points of view on this question. Regarding the consideration of reports by an appropriate body, some participants suggested that the body should be a new Trade Policy Committee; others that it should be the GATT Council, possibly at its special meetings; and yet others that reports should be considered by the annual Sessions of the CONTRACTING PARTIES. Most participants agreed that reports should be made public, although some restated their preference for a résumé to be published; the point was also made that it could be desirable to consider also making public the views expressed in the discussion of the reports. The suggestion was also made that the reports on country reviews should be a source for a periodic assessment of trends in trade policies by the Secretariat, on the basis of which a regular general discussion could be held in the Council.

10. It was generally felt that more consideration needed to be given to the relationship between the proposed country reviews and other GATT surveillance procedures. On the one hand it was suggested that country reviews might take the place of certain aspects of the Council's regular review of trade policy developments. On the other, the difference between the proposed reviews and surveillance of specific GATT obligations was again emphasized.

11. The Chairman noted that the overall aim of the review procedure was to give GATT a greater rôle in the discussion and evolution of trade policies. Although it would not be related to specific GATT obligations, it was not intended purely to serve purposes of information, but to enable contracting parties collectively to survey the course of trade policies and to assess what should be done, as well as to assist government administrators in taking stock of how national policies should evolve. In this context, transparency was not a modest objective.

12. With respect to negotiating objective (ii) the representative of Switzerland introduced a paper relating to the improvement of the overall effectiveness and decision-making of the GATT as an institution, and focusing on closer Ministerial involvement (MTN.GNG/NG14/W/15). He said that more regular and structured Ministerial participation would strengthen both the dialogue among contracting parties and GATT as an institution. The motives for the Swiss proposal were, as contained in paragraphs 5 and 6 of the submission, to strengthen the discussion of trade policies at a political level and to promote greater transparency in discussion of trade policy intentions; to ensure a better link between national policy-making and international trade; to ensure that GATT was recognized as the principal forum for multilateral discussions of trade policy; and to increase Ministers' awareness of common approaches or diverging views, thus encouraging better national economic policy formulation. He noted the linkages between trade and other economic policies affecting growth and development. GATT, as an institution and a treaty, must ensure that these linkages were given the necessary attention at a political level; only closer Ministerial involvement in GATT could ensure that trade policy

concerns were adequately reflected in international economic cooperation. The purpose of such involvement (as noted in the former Swiss submission, MTN.GNG/NG14/W/7, and in paragraph 4 of the present paper) would be to enable Ministers, meeting in the framework of GATT, to evaluate trends in international trade policies and examine the interaction and coherence of trade, financial and monetary policies. Switzerland generally favoured the creation of a relatively small Ministerial body, whose composition would reflect a balanced representation of contracting parties, broadly along the lines of the Consultative Group of Eighteen. The composition of the body might also take into account the importance of individual contracting parties in the areas of financial and monetary relations. The functions of the group should be to bring together diverse views on trade policies, to permit a better mutual understanding of these views, to clarify points of contention relating to commercial policies, and to promote a broad consensus on subjects relating to the multilateral trading system and the relationships between trade, financial and monetary policies. It should not be regarded as a "steering group" for the GATT and should not take any decisions falling under the sole competence of the CONTRACTING PARTIES.

13. Many participants recognized the need for encouraging fuller political-level discussion of trade policies through closer Ministerial participation in GATT. Such political participation would usefully complete the technical operations of GATT, assist the decision-making process, and give needed encouragement to the multilateral trading system. Some participants, however, expressed doubts about the type of rôle which greater Ministerial involvement could play in the GATT policy making process. Such involvement, in their view, would only be useful to the extent that it did contribute to the decision-making process of the GATT system: it was noted that Ministers were now always involved at key moments such as the inauguration or completion of rounds of negotiations. In this context the risk of "banalizing" Ministerial participation through too frequent and routine meetings was raised. It was also pointed out that Ministerial involvement was only one element in improving GATT's overall effectiveness, and that a clear distinction should be maintained between trade policy deliberations and the decision making processes of GATT.

14. Differing views were expressed on the form which Ministerial participation might take. Some participants favoured a restricted but representative group on the lines of the CG-18. Another view was that a Ministerial group should be a very much smaller steering group, with some permanent and some rotating member countries. Other participants saw considerable difficulties with these approaches because of the need to select the membership of the Group. In this view Ministerial participation should be through the forum of the CONTRACTING PARTIES' sessions.

15. In this connection, one participant suggested that two levels of Ministerial involvement might be envisaged, reflecting two different functions: the opportunity for Ministers regularly and collectively to express their views on the operation of the multilateral trading system, and the need to provide continuing political level stimulus and guidance

for GATT. It was suggested that, to accomplish the first, the CONTRACTING PARTIES could meet every two or three years at Ministerial level, inter alia to review developments in the trading system in overall terms. In respect of the second, a small but representative group of Ministers might meet regularly within the framework of GATT in order to reflect jointly on issues and problems relating to the trading system. These discussions should be informal and private. The mandate for such a group should be general and should not include any formal decision making functions related to GATT obligations. It was recognized that participation in the restricted Ministerial forum would raise difficult questions, including those of EC presence and of a constituency or rotation system for membership. But it was important that such a restricted informal group be formed to bring current informal Ministerial discussions within the GATT framework. His delegation expected to put forward some written proposals¹ on this question for the next meeting of the Negotiating Group.

16. On negotiating objective (iii), the representative of Canada recalled the proposals made by his government in July 1987 (MTN.GNG/NG14/W/10) for strengthening GATT's relationship with other international economic and financial organizations. He recalled four particular proposals: that there could be periodic joint meetings of the GATT, the IMF and the World Bank; that GATT officials could be involved in regular IMF Article IV consultations and perhaps in stand-by negotiations; that GATT officials could participate in relevant IBRD activities; and that trade liberalization measures taken by developing countries under IMF or IBRD programmes could, if translated into firm commitments, be given credit in the MTN. He added that the results of the negotiations on greater Ministerial involvement would also affect the cooperation between GATT and the international financial institutions. In Canada's view the Uruguay Round provided a great opportunity for closer cooperation with the "Bretton Woods" institutions. In this connection, he requested the Secretariat to produce a background note comparing the mandate, functions and organization of GATT with those which had been proposed, under the Havana Charter, for the International Trade Organization.

17. Many participants took up the question of what form greater cooperation might take. It was stressed that the negotiating objective spoke of achieving greater coherence in global economic policy-making through such cooperation. Several participants pointed out that the question should be examined at different levels; for example distinctions must be made between cooperation at the CONTRACTING PARTIES' level or at Ministerial level and at Secretariat level. In this connection one participant expressed his delegation's disagreement with the views expressed by Switzerland in paragraph 5 of MTN.GNG/NG14/W/7. It was recalled that various suggestions for examination of the relationship

¹These have subsequently been circulated in MTN.GNG/NG14/W/16.

between GATT and the international monetary system had also been made in the Jamaican communication of July 1987 (MTN.GNG/NG14/W/11). One participant therefore reserved his position on the specific Canadian proposals: at the same time, he suggested that the time may have come to revive the concept of the ITO, as a comprehensive approach which would, inter alia, regularize the status of the GATT Secretariat. Some other participants supported the idea of a Secretariat background paper comparing the mandates of GATT and the proposed ITO. Another participant expressed the view that some of the discussion which had taken place went beyond the mandate of the Group, and also reserved his position on the Canadian proposals.

18. One participant reiterated questions which he had posed to the IMF and World Bank observers in the Group. He noted that the recent GATT press release on International Trade (GATT/1419) had included a certain number of statements concerning the dampening effects on international trade of the international debt situation, the twin deficits of the United States, and the malfunctioning of the exchange rate system. He asked the Fund and the Bank whether they would share the GATT Secretariat's views on the first and last of these questions. He did not agree with the views expressed by some participants that this was irrelevant to the work of the Group. It was important that the results of trade negotiations should not be negated by monetary and financial considerations: this was part of the coherence referred to in the negotiating objective. It was also important that GATT, at all levels, should take an initiative in sensitizing financial and monetary policy makers to the effects of these policies in the field of trade. Another participant, noting that the IMF and IBRD were making greater efforts to develop a coherent approach between themselves, asked the Fund and Bank representatives to give their views on the relationships and coherence of financial, monetary and trade policies and the rôles of the Fund and Bank therein. A third participant asked for further clarification on the operational objectives envisaged by Canada in its proposals, and suggested that more work might be done on how greater cooperation between GATT and the financial institutions could help countries with severe trade and payments problems.

19. The observer from the World Bank noted that there was already a considerable and growing coordination between the IBRD and the IMF. There were regular contacts between the Bank and GATT at institutional level (where the Director-General of GATT reported on the world trade situation to the Development Committee) and at head-of-agency level, and that there were also increasing contacts among the staff of the institutions relating to operational and research work, in particular structural adjustment lending which often contained a trade element. Strengthening of these links was constrained by the size and resources of the GATT Secretariat as well as by the difference between the subject orientation of the GATT Secretariat and the country focus of the Bank staff. The President of the World Bank had addressed the Ministerial Meeting at Punta del Este and the Bank had observer status in some negotiating groups. The Bank was also providing technical support to developing country participants in the

Uruguay Round. The observer from the IMF also noted that a great deal of international and institutional coordination took place inter alia through the meetings of the Interim and Development Committees. Faster and more sustainable growth was the overall objective of such coordination. The policy consensus reflected in the Punta del Este Declaration and the proposals made by Switzerland and Canada moved very much in the right direction.

20. The Chairman remarked that the question of coherence of international economic policies and the institutional linkages which could contribute to it was central to the work of the Group. He was struck by elements such as the absence of Trade Ministers from the meetings of World Bank or IMF Committees. The Group had been charged by Ministers with developing understandings and arrangements to increase GATT's contribution to achieving greater coherence in global economic policy-making; the discussion indicated that there was need for further reflection on this part of its negotiating objectives.

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

21. The Chairman noted that the Group had, as required by the negotiating plan for the initial phase, made a first examination of the issues before it on the basis of proposals by participants and with background documentation from the Secretariat. It was evident that this examination had taken the Group further in some areas than in others. The work done so far was considered a good basis for continuing to subsequent stages of the negotiating process, as laid down in the negotiating plan. It remained open to all participants to put forward further proposals and to ask for further background documentation from the Secretariat.

22. In this connection, the Chairman said that it would be his intention to produce a revised version of his discussion paper on a trade policy review mechanism, for the further consideration of the Group. This would take into account the remarks made during the meeting. He noted that a paper on the institutional aspects of the Group's work, in particular on Ministerial participation, was expected from the Australian delegation.

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

23. The Group did not feel that it was necessary to meet again during 1987. It was generally agreed that a meeting in early 1988, lasting several days with provision for informal as well as formal session, would be useful. The Group therefore agreed, subject to developments and review in the Group of Negotiations on Goods, to schedule its next meeting for the week beginning 1 February 1988.