

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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COMMUNICATION FROM THE NORDIC COUNTRIES

I. Surveillance

The Punta del Este Declaration speaks of enhanced surveillance in order to "enable regular monitoring of trade policies and practices of contracting parties and their impact on the functioning of the multilateral trading system".

The Nordic countries agree with what is stated in the revised version of the Chairman's Discussion Paper dated 7 January 1988, that regular reviews are an appropriate method to carry out the objective set out in this part of the Punta del Este Declaration, however supplemented by other devices such as creating a central repository for notifications and quantification of the cost of trade measures.

We also agree that the aim of such an enhanced surveillance is to increase transparency and understanding of contracting parties' trade policies and practices. It must not, however, be left out of sight that an important aim of the new surveillance mechanism is to improve the adherence to agreed rules, even if it is understood that the review exercise is not to serve as a basis for an enforcement mechanism for specific GATT obligations. All contracting parties have the same legal obligation to observe the rules and provisions they have subscribed to. At the same time it is clear that violations by major trading partners have a more harmful effect on the multilateral trading system than the same measures taken by small countries.

Below are offered comments to the paragraphs contained in the Chairman's discussion paper.

1. Transparency

In order to increase the transparency of the trade régimes of the contracting parties there are obvious advantages in an annual report from each contracting party to the CONTRACTING PARTIES along the lines proposed. However, it is then absolutely necessary to agree on a format in order to make the reports a valuable tool and that all contracting parties fulfil their obligation to report.

2. Frequency

Each contracting party must be reviewed with some frequency. The Nordic countries have already earlier expressed their sympathy for the idea to let a "core-group" of thirty trading entities be reviewed more often than others. We have also suggested that share of world trade could be used as indicator for deciding the frequency for different groups of countries. We would prefer that a small number of major trading entities be reviewed at least every 18 months.

3. Independence and professionalism

The Nordic countries attach importance to reaching an agreement on a formula that the report constituting the basis for the review should be written by a team of experts with experience in trade policy matters chosen from a roster of outside experts and/or GATT staff members. The review team should base itself on the annual reports to the CONTRACTING PARTIES, a factual background paper by the Secretariat and other relevant information they deem important. The review team may visit the countries concerned, but the reviews ought to be carried out in Geneva in order to give all contracting parties the possibility to participate and voice their concerns. It may be practicable to designate some 3-5 contracting parties as examiners, who together with the review team could prepare a draft of appropriate questions to be submitted in advance to the country under review. It would be the task of the review team to offer advice and to suggest technical assistance in order to promote future rationalization of trade policies.

4. Political and comprehensive

The Nordic countries quite agree with the aim and focus of the review set out in paragraph 4. The review ought to be placed in a general economic domestic and external policy context and comprehensive in the sense that it covers all trade policies and practices, including so-called grey area measures. The surveillance mechanism should from a legal point of view be distinct from all existing legal GATT mechanisms, e.g. existing surveillance, dispute settlement procedures, notification requirements. If the review reveals anything which other contracting parties want to complain about, the normal consultations and panel procedures could be followed. The report does not relieve contracting parties from obligations to notify.

5. Review result

The review body ought to be the Council in order to stress the importance given to the reviews and to avoid creating new bodies within the GATT system.

As a result of the review a report is drawn up along the lines proposed in the Chairman's Discussion Paper. The Council will not in any formal sense adopt or endorse the report, but only take note of it. We can

support the proposal that the report and the statements made at the time of discussion of it be made public on the responsibility of the Secretariat. The Nordic countries would find it useful to ask the Secretariat to make periodic assessments of trends and tendencies in trade policies based on the reviews. This assessment together with the annual reports could provide a background input to general discussion at the annual sessions of the CONTRACTING PARTIES (see under II.3).

II. Overall effectiveness, decision making and ministerial involvement

The Punta del Este Declaration underlines the need to improve "overall effectiveness and decision-making" of GATT and mentions, in particular, "involvement of ministers" as one way of doing it.

This heading covers a number of related but distinct issues:

- overall effectiveness and general status of GATT as an institution;
- procedures and rules for decision-making;
- involvement of ministers.

II.1 Overall effectiveness and general status of GATT as an institution

GATT has been a remarkably successful organization in many respects. In normal bureaucratic terms it is highly efficient. Its status is high among "trade people". Many of the present problems in the trade field are less related to GATT itself than to contracting parties' inability to pursue effective structural adjustment policies. However there are evidently some shortcomings which could be dealt with by changing institutional arrangements and procedures. In general it would be important to give GATT a stronger and more independent institutional power. This would entail changes in several respects and the results would come about only gradually.

It is clear, to start with, that GATT and its chief executive officer have limited power as compared to the situation in other international organizations. One reason is the peculiar history of GATT. It was never intended to be what it has become and was therefore never provided with a charter as an institutional "birth certificate". Neither has GATT resources to reward good behaviour or sanctions to punish violations of the rules. GATT is an agreement or a mechanism which allows countries to trade concessions and persuade each other to fulfil their obligations.

The lack of leadership on the part of the organization was not a major problem when it was a small club of countries, all enjoying rapid, stable growth and deeply committed to cut tariffs. Now the membership is much larger and growing. The international economy is less conducive to stable economic growth. Trade problems are much more manifold and more complex than simple tariff cutting.

We believe that GATT must be allowed to evolve gradually into an organization that can provide strong, independent leadership in defending and developing fair and free trade. It is probably neither possible nor necessary to take an explicit decision to this effect. It is more a matter of the contracting parties accepting GATT and its chief executive officer to assume new de facto responsibilities. Such a development would lead to several small changes which together should have a significant impact:

- in general the chief executive officer of GATT should be allowed to play a more active rôle in providing effective leadership in defending and developing an open multilateral trading system;
- the chief executive officer would be allowed to initiate analytical studies of trade problems deemed to be particularly important;
- the chief executive officer could propose negotiations on specific topics and suggest appropriate measures to be taken (cf. proposal by the Managing Director of the IMF regarding the enhancement of the Structural Adjustment Facility);
- the kind of surveillance mechanism described above would greatly enhance the active rôle of the Secretariat in monitoring trade policies and practices.

The strengthening of the GATT Secretariat envisaged here is a precondition for an effective cooperation with "other international organizations responsible for monetary and financial matters". At the same time such cooperation might help to strengthen the GATT Secretariat even further.

II.2 Procedures and rules for decision-making

There are explicit rules laid down for decision-making in GATT. However, the rule that is actually followed for almost all decisions - the consensus principle - is as yet unwritten.

It is clear that a number of decisions, in particular those that involve substantial obligations, can only be taken with the consent of countries concerned. Other decisions become effective only if they are overwhelmingly and willingly supported. On the other hand there are numerous "smaller" administrative decisions or decisions of lesser significance, for instance the decision to ask for documentation or an analytical study from the Secretariat, which should not be subjected to the de facto veto power of the consensus rule. For instance, in such matters countries in small majorities should have the opportunity to express reservation without blocking it in a formal sense.

The consensus principle can, if handled with care and circumspection, promote both cohesion and effectiveness. It is a convenient method to avoid a cumbersome system of weighted voting and other qualitative

conditions. The application of the principle first of all requires a transparent and vigorous effort to arrive at an all encompassing agreement. This is possible only if all participants show a considerable amount of constructive cooperation and restraint. In particular, countries in a small minority must show a readiness to accommodate an emerging consensus. With regard to "major" decisions the consensus principle is probably the only viable one as long as we want to avoid weighted voting and qualified majorities. In respect of administrative and procedural decisions a more practicable principle should be accepted.

II.3 Involvement of ministers

The wording of the Punta del Este Declaration is not clear as far as involvement of ministers is concerned. It is difficult to see how ministers from all member states could have the time and opportunity to be involved in the executive affairs of GATT. If a more restricted group of ministers is envisaged it is unclear how they could take action that would be binding on all CONTRACTING PARTIES or ensure that non-participating contracting parties feel responsibility for recommendations made. Both the World Bank and the International Monetary Fund have committees with a system of weighted voting. Such an arrangement does not seem to be relevant for GATT.

One possible course of action to enhance ministerial involvement is to make annual sessions - at appropriate intervals - of the CONTRACTING PARTIES a natural place of rendez-vous for "GATT ministers". However, in order to attract ministers to come to Geneva on a regular basis, it would be necessary to "stage" at least those annual sessions of the CONTRACTING PARTIES in a different manner. The agenda should be rid of everything that could be taken care of by the Council, which would deliver only a short report to the CONTRACTING PARTIES. Analytical reports on important trade problems together with the periodic assessment of the Secretariat and the annual reports by the contracting parties could constitute background input to the discussions at all annual sessions. The ministerial rendez-vous would also give "GATT ministers" a valuable opportunity to meet and get acquainted. It would of course in addition give them an occasion to deal with bilateral problems or engage in informal multilateral negotiations.

In order to attract still more interest from media and the academic community the idea of an annual GATT lecture could be pursued.

III. Strengthened relationship with other international organizations

The Punta del Este Declaration expresses the hope that GATT should contribute to "greater coherence in global economic policy-making" and indicates that it could be achieved by strengthening the relationship with "other international organizations responsible for monetary and financial matters".

Before elaborating on different ways to strengthen cooperation between GATT and "other international organizations" (i.e. IBRD and IMF) it is

important to stress one simple fact. GATT could, on its own, "promote greater coherence" in the world economy. The charters of IBRD and IMF and the GATT are all based on the same paradigm of a liberal world economy governed by freely convertible currencies; reasonably stable and predictable exchange rates; free, non-discriminatory trade and effective structural adjustment. "Great coherence" would be achieved if all three "parties" kept their own house in order. Thus if GATT, for instance through improved institutional power and more effective surveillance, could contribute to a stricter appliance of existing rules it would per se increase the coherence of the world economy.

Cooperation between GATT and IMF/IBRD could be envisaged on at least two levels: the policy-making level and the practical, Secretariat level.

The Director-General of GATT is invited to attend as an observer for example the meetings both of the Interim Committee of the IMF and the Development Committee. One way of improving cooperation and contacts on the policy-making level would be to invite the chief executive officers of the IMF and IBRD to attend the annual meetings of the CONTRACTING PARTIES.

In order to improve working level cooperation GATT would, as already mentioned, need to strengthen institutional capacity, both in terms of independence of action, country knowledge and resources. Apart from exchange of information, joint studies and meetings it seems reasonable to focus on cooperation in relation to bilateral contacts with member governments. IBRD and IMF are already deeply involved in negotiations about structural reforms and trade liberalizations in connection with different kinds of non-project lending.

It is important that these reforms are GATT-consistent and that the countries concerned can present them as concessions for which credit is given in the context of GATT. Enhanced GATT surveillance of trade policies and practices of all contracting parties would inter alia take place within the broader framework of structural reforms as well as development policies agreed upon with IMF and IBRD. At the general level it is clear that close cooperation is called for between GATT, IMF and IBRD at staff level in order to bring about consistency and coherence of policy advice and performance conditions. There are, however, several issues to be dealt with in order to achieve such cooperation as for example:

- ways to still improve the flow of information between GATT, IMF and IBRD;
- in order to obtain greater coherence in global economic policy-making it is necessary to ensure better coordination on country level; it could therefore be useful to increase the cooperation between the GATT on one hand and the IMF and the IBRD on the other in connection with consultations undertaken by the two latter organizations; in this context it would also be useful to coordinate examinations in the Balance-of-Payments Committee with the consultations of IMF;
- setting up a GATT liaison office in Washington.