

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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

MEETING OF 25-28 JANUARY 1988

Note by the Secretariat

1. The Negotiating Group on Functioning of the GATT System held its fifth meeting on 25-28 January 1988 under the Chairmanship of Mr. J.L. Katz (United States). The Group adopted the agenda set out in GATT/AIR/2532.

2. The Group had before it as new documentation a proposal by Australia (MTN/GNG/NG14/W/16/Rev.1) on more active Ministerial involvement in the GATT and a communication from the Nordic countries (MTN.GNG/NG14/W/17) covering all three negotiating objectives.

A. Discussion of the subjects defined in the negotiating objectives

3. It was agreed, as proposed in the airgram, to begin with a discussion of Negotiating Objective (ii) and subsequently to revert to Negotiating Objectives (i) and (iii).

Negotiating Objective (ii): "to improve the overall effectiveness and decision-making of the GATT as an institution, including, inter alia, through involvement of Ministers".

4. The representative of Australia, introducing his delegation's proposal, said that it was important for responsible Ministers to be meaningfully involved in the affairs of GATT, in view of the importance and sensitivity of its work. Australia proposed two levels of Ministerial involvement. First, Ministers should be involved regularly in the CONTRACTING PARTIES' Session. This need not occur every year, but every two or three years. On these occasions a Ministerial agenda should be established separate from the routine work of the official-level Sessions. The aim should be to reinforce contracting parties' commitment to the General Agreement, provide Ministers with an opportunity to assess the world trade system, give the GATT a permanent machinery for political level decision-making, raise the profile of the organization and make each contracting party's rôle in it more visible domestically and internationally.

5. While this would help to reinforce contracting parties' commitment to the GATT system, it was not enough to ensure a continuing and close involvement. For this reason Australia also proposed that, between the

major Ministerial Sessions, a small group of Ministers should meet regularly, in an informal atmosphere, under the aegis of GATT. Such meetings could give a continuing sense of direction to the work of GATT. They would not replace decision-making bodies such as the Council or the CONTRACTING PARTIES but could, inter alia, bring present informal Ministerial meetings on trade issues more closely within GATT. The group should be small, with around fifteen members. It should monitor developments in trade, explore major sources of trade disputes and consider priorities for GATT's ongoing work and possible reforms to the system. Details of its rôle and composition would need to be carefully worked out to ensure that the group would have an authoritative voice within GATT and be sufficiently representative.

6. The representative of Sweden, introducing the paper submitted by the Nordic countries, said that Ministerial participation was only one element in the institutional improvements implied in objective (ii). There was a need to introduce gradually into the GATT system stronger and more independent institutional powers. These should include new responsibilities and a more active rôle for the Director-General, including the right to take greater initiatives in such areas as analytical studies of important trading problems and proposals for negotiations on specific topics. The Secretariat should also be strengthened to encourage its more active participation in the increased surveillance activities envisaged under negotiating objective (i). The Nordic countries also saw a need to review the decision-making procedures of GATT, including possible modification of the consensus principle in cases of less important decisions.

7. With respect to Ministerial participation, the Nordic countries questioned whether a restricted Ministerial group could take decisions which could bind the CONTRACTING PARTIES, in the absence of a system of weighted voting which they did not think desirable for GATT. By contrast, they supported the idea of regular Ministerial Sessions of the CONTRACTING PARTIES. The agenda for such meetings should exclude all routine Council or CONTRACTING PARTIES' business and should concentrate on analyzing major trade problems and questions affecting the multilateral trading system arising from the trade policy review or other surveillance activities of GATT.

8. Most participants supported closer Ministerial involvement in GATT through regular Ministerial-level Sessions of the CONTRACTING PARTIES every two or more probably three years. These should, by providing overall political impulsion and guidance to the GATT system, assist in improving its overall effectiveness, and help to focus its decision-making structure. The view was expressed that regular sessions of responsible Ministers in GATT could also assist in defining the contributions which trade policy could make to the coherence of international economic policies, and provide a political-level forum for trade concerns parallel to those which existed for monetary and financial policies in other international institutions.

9. Views were more divided about the rôle which might be taken by a small group of Ministers. Some participants agreed with Australia's suggestion that a small Ministerial group could provide useful continuing political support and a sense of direction for the work of GATT as an institution. It was, however, pointed out that a number of the objectives envisaged for the group were very similar to those of the Consultative Group of Eighteen. While this showed that the group's rôle should be advisory or consultative, rather than executive or "steering" in nature, it also illustrated the need to clarify the relationship between the proposed group and existing bodies. One participant emphasized the importance of ensuring that the negotiating mandate was treated as a whole, with all three elements considered in the overall context of the Negotiating Group's objectives. Ministerial involvement should therefore be seen as part of the overall improvement of the GATT system which could result from the Negotiating Group's work. He also stressed that Ministerial involvement, particularly in a small group, should not affect the fundamentally contractual nature of the General Agreement; all decisions must continue to be made by the CONTRACTING PARTIES as a whole. Other participants sought greater clarity concerning the possible mandate of a small group. The question of how decisions made or proposals advanced in a small group could be effectively extended to the whole membership of GATT was raised. Some expressed doubts about the usefulness or desirability of institutionalizing within GATT current informal, limited Ministerial discussions held outside the GATT framework and hence without commitment. In this connection, one suggestion was made that "small group" Ministerial participation should be limited to informal meetings held on the fringe of CONTRACTING PARTIES' Sessions. The size and composition of the small group were also questioned. Some participants agreed with the Australian proposal for a group of fifteen members, or even fewer. Others saw problems in determining a sufficiently representative composition for a group with such a small membership. It was suggested that self-selection might not lead to an overly large group but could include all interested parties. One participant wondered whether a Ministerial group of this kind would be necessary if the Uruguay Round were to create the improvements in the trading system expected of it.

10. It was agreed to continue the discussion of this item further in informal consultations with a view to clarifying the objectives, functions and structure which could be given to Ministerial involvement. It was also agreed to revert to the other aspects of negotiating objective (ii) mentioned in the submission by the Nordic countries.

Negotiating Objective (i): "to enhance the surveillance in the GATT to enable regular monitoring of trade policies and practices of contracting parties and their impact on the multilateral trading system".

11. The Group had before it a revised draft of the Chairman's discussion paper on a trade policy review mechanism. Most participants agreed that the paper was a good basis for further consideration. It was emphasized that the objective of the review mechanism was not to examine the conformity of particular measures with GATT obligations but to provide for

greater transparency in and understanding of the trade policies of all contracting parties. In this connection, it was also pointed out that the exercise of collective appreciation of trade policies should lead to greater adherence to the principles and objectives of the General Agreement. Some delegations, however, while accepting the need for better transparency in trade policies, questioned whether a review process of the type proposed which provided no quantification or qualification of trade policies or their impact would achieve the desired end. It was widely agreed that all contracting parties should report annually and be subject to regular review. In this connection, the concept of a "core group" was generally accepted. At the same time, some participants saw need for caution in drawing up an annual reporting system for all contracting parties; while present GATT notification systems should be reinforced, duplication between new and existing systems should be avoided. Other points made included the need for further reflection on whether reviews should be carried out in capitals, the manner in which the European Communities would participate in the reporting and review process, and whether reviews should be carried out by a small group or in an open-ended forum. A number of participants expressed interest in the domestic surveillance proposals made by New Zealand in an earlier note (NG14/W/13), and agreed that these should be discussed further in the Group.

12. The Group continued its discussion of the Chairman's paper in informal session. Following these informal discussions it was agreed that a further revision of the Chairman's note should be prepared. Consultations should be held concerning a common format for country reports. The Secretariat was requested to prepare a listing of existing notification procedures under provisions of the GATT, and the Tokyo Round Agreements. It was also suggested that the Secretariat should provide information on the share of world trade accounted for by a "core group" of 20 or 30 contracting parties and rough estimates of the staff requirements and costs which would be implied by the operation of the proposed review mechanism.

Negotiating Objective (iii): "to increase the contribution of the GATT to achieving greater coherence in global economic policy-making though strengthening its relationship with other international organizations responsible for monetary and fiscal matters."

13. The representative of Sweden, on behalf of the Nordic countries, said that in their view there were two aspects - policy-making and Secretariat - to this objective. He noted that the economic aims of GATT, the IMF and the World Bank were essentially similar. GATT by itself could contribute to greater coherence if it were able to exercise improved international powers and more effective surveillance. At the policy-making level, new links could be created through, for example, inviting the Managing Director of the IMF and the President of the World Bank to attend Ministerial Sessions of the CONTRACTING PARTIES. In addition, care should be taken to ensure that trade policy commitments undertaken by contracting parties in the context of loans by the IMF or World Bank were consistent with GATT provisions; stronger institutional cooperation between GATT and the

international financial institutions could help in achieving this. At working level, there was therefore room for a better mutual flow of information between the institutions, for coordination of consultations, and perhaps for GATT representation in Washington.

14. One participant again stressed the importance of parallel progress in the three negotiating objectives. Coherence in the international economic system required an equal partnership among the three international organizations, whose objectives of promoting an open economic system were similar. The growing importance of trade policy and structural adjustment in IMF and World Bank lending programmes made it increasingly necessary for GATT to provide its input. The proposed trade policy review mechanism might help in defining such an input. One weakness in the existing system was the absence of obligations on the part of the Bank and Fund comparable to those contained in Article XV of the General Agreement. At the same time, the contractual nature of GATT made it difficult for powers to be delegated by the CONTRACTING PARTIES: he suggested that Ministerial involvement might help in bridging the gap between GATT and the other organizations.

15. Another participant cautioned against confusing the rôles of international organizations which had done good work in the past. He also suggested that achievement of the third negotiating objective might partly result from success in the first two. He suggested that the positive economic effects of trade liberalizing measures taken in the context of other organizations should be recognized by the GATT and that, in particular, credit should be given in GATT for trade liberalization measures taken pursuant to structural adjustment lending programmes.

16. One participant suggested that the Group should try to determine how far the first and second negotiating objectives could contribute to the third, and what other instruments might be developed for the third objective. The question of improving technical cooperation among the various secretariats now appeared of minor importance. It was not realistic to think of developing in GATT a comprehensive policy attitude encompassing trade, financial and monetary aspects. Rather, it was necessary to ensure that the message of "trade policy people" should be heard and integrated into wider aspects of economic policies discussed in national Cabinets. This was a limited but clear aim which should be pursued in relation to the third negotiating objective.

17. Some delegations stressed the need for a more fundamental discussion of this issue. The discussion of institutional relationships concealed many levels of complex relations in trade, financial, monetary and other economic policies, including asymmetry of treatment, which had contributed to the decline of the international economic environment. More was therefore involved than simply reviewing the framework of institutional relationships between GATT and the international financial organizations. One participant also emphasized the need to see the objectives of this Negotiating Group in the context of the overall coverage of the Uruguay

Round, which was intended to result in agreed, effective and enforceable disciplines for world trade. Developments in other areas of the negotiations were therefore very relevant.

B. Future work programme and arrangements for further meetings

18. The Chairman suggested that the Negotiating Group might envisage reaching common working texts on elements of negotiating objectives (i) and (ii) before the summer break, for reflection in capitals over the summer, for completion in the autumn period. He therefore proposed to hold three more meetings of the Group before the summer and proposed the weeks of 21 March, 2 May and 20 June as possible meeting dates. He suggested that the Negotiating Group initially continue its discussion of negotiating objective (iii) at the next meeting and revert thereafter to objectives (i) and (ii).

19. One participant emphasized the need to maintain flexibility within the overall framework of the Group's work and the Round as a whole. The number of meetings in the next half-year should be guided by the review to be carried out by the GNG at its next meeting.

20. It was agreed to hold the next meeting of the Negotiating Group in the week beginning 21 March and to adopt provisionally the meeting schedule proposed, on the understanding that due flexibility would be maintained.