

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)

Negotiating Group on Functioning
of the GATT System

MEETING OF 21-23 MARCH 1988

Note by the Secretariat

1. The Negotiating Group on Functioning of the GATT System held its sixth meeting on 21-23 March 1988 under the Chairmanship of Mr. J.L. Katz (United States). The Group adopted the agenda set out in GATT/AIR/2565, with the order of business under Item (A) modified to allow for discussion of Negotiating Objective (i) followed by that of Objectives (iii) and (ii) respectively.

2. The Group had the following new documentation before it: a communication from the European Communities covering all three negotiating objectives (NG14/W/20); a proposal from Canada for increased GATT/IMF/IBRD cooperation (NG14/W/21); and two background notes from the Secretariat on notification procedures in GATT (NG14/W/18) and surveillance mechanisms in other international organizations (NG14/W/19).

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

3. Many participants made general comments on the concepts which had been advanced for improved surveillance through trade policy reviews of contracting parties. Although there was broad agreement on the importance of transparency and understanding as objectives of the review mechanism, a number of participants emphasized that reviews should be set against a clear "yardstick" of GATT obligations. In this context, it was pointed out that the review mechanism must take account of whatever new structure of rights and obligations might result from the Uruguay Round; one participant stressed that, in addition, the review mechanism should confine itself to trade policies and could not be extended to general macroeconomic policy. The point was also made that the review mechanism should redress existing asymmetry in GATT surveillance. Some participants expressed concern about new reporting obligations implied by the proposed review mechanism and suggested that the cumulative burden of reporting might be too great for small developing countries to bear; there should not be a proliferation of surveillance mechanisms. Others stressed that the obligation of transparency, and hence of reporting and review, should apply to all and that trade policies must be considered in their macroeconomic context.

4. There was clear agreement that contracting parties or entities whose policies have a significant impact on the trading system should be reviewed more frequently than others. Some participants felt that the frequency of reviews should be directly related to the share of world trade. Others thought that a more flexible approach should be taken and that more thought should be given to the criteria for selection of a "core group". Many participants noted that a "core group" of twenty trading entities (counting the European Communities as one) would cover a large share of the trade of contracting parties, although some participants also noted that the impact of the trade policies of countries other than the major trading entities was very small. There was also a widely-held view that the four major trading entities should be reviewed more often than other "core" countries. However, one participant could not share this view, and also expressed concern about the way in which the policies pursued by individual Member States of the European Communities would be reviewed. In reply, the spokesman for the European Communities noted that it pursued a common trade policy which was nonetheless complex: review in GATT would imply examination of all its components. One participant suggested that, while the European Communities would be reviewed as one group, questions could be posed in the review on the trade practices of the individual Member States.

5. Some participants called attention to a need to strengthen the rôles of the Director-General and Secretariat, in order to provide the GATT with an independent review capacity and a stronger influence in the field of national trade policies and practices. In addition, it was stated, strengthening the Secretariat would help in creating more meaningful relations between GATT and international financial organizations. Some participants said that in conducting country reviews, the Secretariat should furnish review teams to visit capitals for discussions with national authorities and should write the basic reports for the consultations, which should be submitted to the authorities of the country reviewed for correction and comment. Others noted that there was as yet no consensus on the review procedure, including the idea of sending review "teams" to capitals.

6. There was a wide measure of agreement that reviews should be conducted by an open-ended body. The special meetings of the GATT Council seemed to many the appropriate forum. One participant suggested that the Part IV consultations undertaken in the Committee on Trade and Development could be used as a model for the reviews.

7. The Chairman gave his view that the aim of the Ministers at Punta del Este was not to create additional bureaucratic mechanisms. Rather, their objectives were to give the GATT a surveillance rôle over the trade policies of contracting parties. This would provide an opportunity for all contracting parties to exert "moral suasion" over each other's trading practices as well as strengthening the hands of domestic policy-makers against protectionist pressures. A detailed discussion of a revised Chairman's informal discussion paper on a trade policy review mechanism was held in informal session.

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

8. The representative of Canada, introducing the Canadian proposal (NG14/W/21) stressed the importance of this element of the Group's negotiating objective. Closer institutional cooperation between a strengthened GATT and the IMF and World Bank was very necessary in the light of the rapid growth of the external sector of national economies and the inseparability of trade and finance. The GATT as an institution had not adapted to these trends. This situation had been recognized as untenable by Ministers in Punta del Este. The Group's negotiating mandate was to transform the GATT into a trade policy institution, through the creation of effective surveillance backed up by adequate research and trade policy analysis, and with a more direct and active policy rôle for Trade Ministers.

9. Canada recognized two levels where closer cooperation would be beneficial. At the staff level, greater communication and closer working relationships between a strengthened GATT and international financial institutions were needed. The capacity of GATT to assess the economic costs of trade measures and identify alternative policies should, to that end, be reinforced. Canada proposed a number of specific ways in which inter-Secretariat working relationships could be strengthened: the establishment of a GATT liaison office in Washington; consultation among the Secretariats before country consultations or surveillance or programme visits were held; exchanges of views on staff reports; sharing of services such as data bases; staff exchanges or secondments; attendance at major restricted meetings of the other organizations (such as the Executive Board of the Fund, or the CG18 in GATT) when issues of relevance were to be discussed or even as a standing item. In addition, more frequent informal contacts among senior management of the three organizations would help in keeping the staff of each institution acquainted with each other's ideas: it might be useful to create an ad hoc management committee at Deputy Director-General level which could meet regularly, perhaps once a month. Canada would also like to see a more formal mechanism established for regular exchange of views on issues relating to the interface between trade and finance, in the shape of a joint study group which would report to all three institutions on subjects of common interest, such as the incorporation in GATT of trade liberalization measures taken under Fund or Bank programmes. At the policy level, Canada suggested that there should be enhanced communication among the heads of the three institutions and that consideration should be given to the establishment of a forum where trade and finance ministers could meet jointly to exchange views. It was recognized that much reflection would have to be given to the means of creating such a system, the aim of which should be to encourage greater communication and the development of mutual interests and perceptions among national trade and finance ministries.

10. The representative of the European Communities saw essential links between the three elements of the negotiating objectives. Surveillance of trade policies by officials in GATT could provide a foundation for overall assessment of the direction of trade policies by Ministers. This in turn would help to define the contribution of GATT to the coherence of trade, financial and monetary policies. The interaction of such policies was the essential reference point for the European Communities in this Group. Coherence of policies implied that the GATT could not act in a vacuum, ignoring the monetary and financial environment. GATT had raised such issues in its recent issue of International Trade. No answer had yet been given by the Fund or Bank representatives to questions on these issues which he had raised in the Group; on the other hand, the Bank and the Fund had, in documentation concerning the Uruguay Round, raised a number of sensitive issues on which "partial" comments had been made. He recalled in this connection the agreements which had been reached on participation by Fund and Bank staff representatives in Uruguay Round meetings.

11. The representative of the European Communities noted that medium-term exchange rate trends had clear effects on patterns both of trade and investment. The high degree of international exchange rate uncertainty since 1983 had inhibited risk-taking by entrepreneurs. Flows of investment funds for development had also been inhibited, partly as a result of the high level of indebtedness of developing countries. It was clear that such debt could never be fully repaid; however, the costs of repudiation were also unthinkable high. Lower interest rates and higher economic growth were essential elements in solving the international debt problem. The Uruguay Round negotiations, through strengthening the GATT system, would make an essential contribution to re-establishing conditions for growth and development. But it would be futile to negotiate favourable results in the field of trade if these were then negated by financial and monetary developments. Conditions should be established by which the results of the Round could be protected.

12. The representative of the International Monetary Fund responded to questions of the previous speaker. With regard to the Fund's experience of the costs of policy surveillance, he said that each Article IV consultation by the Fund in 1986 had required 1.4 man-years in direct involvement of Fund economists, and had cost about \$178,000. He noted, however, that Article IV consultations covered the whole range of a country's economic policies, and resulted in two separate reports amounting to about 180 pages in all. With regard to the trade effects of exchange rate fluctuations, he referred to a recent Fund report which he would make available to the Group through the Secretariat. The report distinguished between short-term volatility in exchange rates, whose trade effects were found less important than was sometimes suggested, and long-term swings which were more significant in their effects. The approach currently adopted by Fund members to these problems was to seek coordination of macroeconomic policies on the basis of certain economic indicators.

13. Some participants expressed broad agreement with the ideas expressed by Canada. It was noted that a basic complementarity existed between the objectives of the GATT, the Fund and the Bank. Coherence of international policy-making could be encouraged by each institution performing its rôle adequately. Improvement in the institutional functioning of the GATT was likely to contribute to a better application of its rules, and hence to greater internal coherence; closer inter-agency cooperation would improve the consistency of policy advice. One participant supported Canada's specific proposals for consultation between the three organizations before missions to capitals, broader exchanges of views on staff reports, staff exchanges or secondments and participation in relevant meetings of the other organizations to explain developments and hear the reactions of member states. At the same time the requirements of confidentiality in IMF and World Bank discussions must be respected.

14. Other participants said that much more discussion of this issue was needed. One participant noted that Canada's proposal was based on an assumption of a policy-making rôle which GATT did not now have, and which would require a high-level decision to implement. Such a rôle was not provided for in the negotiating mandate. Another stressed the need to examine carefully the competences of the three institutions in the fields of trade and exchange restrictions. In addition, the influence of exchange rate changes on international trade, the responsibilities of countries with structural trade surpluses, and the question of "credit" for contributions by developing countries should be closely discussed, in the light of the balance of rights and obligations existing in GATT. Another participant said that the Group should, as suggested by the European Communities' proposals, focus on clarifying institutional arrangements which might be evolved, given that the trade policy orientation of GATT was only part of the whole macroeconomic complex. He noted that many of these issues had been discussed previously in GATT and said that the Group should take account of these earlier discussions and integrate the dimension of development into its discussions. He did not agree with the views of Canada and the Nordic countries that "coherence" of economic policies could be examined on a country-by-country level. He considered that the impact of minor, or non-"core", trading countries on the global economic process was really insignificant and questioned whether increased cooperation between the GATT and international financial institutions would help, or whether it would simply mean closer surveillance of developing countries' policies. Another participant said that policy coherence should not only be sought with the Bretton Woods organizations, but also with regional economic agencies and other international bodies including UNCTAD. The idea of linkages between GATT and the international financial institutions should not take priority over needed reforms in the international financial and trading system. He recalled that access to markets was, for his country, the key to the Uruguay Round; for example, agricultural protectionism had cost his country the equivalent of one-third of its total foreign debt in the past ten years. Another referred to marked differences in the approaches of GATT, the Fund and the Bank to trade questions. The Group should relate its objectives clearly to economic development needs

and seek measures and policies which optimise participants' international trading conditions.

15. The representative of the European Communities, in reply, noted that the objectives of the Group clearly set out the importance of GATT's contribution to the coherence of trade, financial, monetary and development policies. The introduction of a trade policy review mechanism and greater Ministerial involvement would reinforce GATT's rôle. Greater attention to the relationship between trade measures and exchange restrictions would imply broader cooperation between GATT and the Fund. The increased surveillance rôle of GATT also implied closer interrelationships with financial organizations. To be successful, reform of the trading system should be complemented by increased finance for development and greater financial and monetary stability. The consolidation of the trade reforms of individual contracting parties into GATT schedules, and due credit in negotiations, should also be achieved. Improvement of the structure of GATT in all these areas would necessarily imply closer cooperation with international financial institutions.

16. The representative of Canada noted that his delegation's proposals were intended to assist the evolution of the GATT system. The mandates of the three agencies, and their confidentiality requirements, should be kept in mind. There was no inconsistency between "global" and "national" policy coherence; in this context, the trade policy review mechanism would help to promote greater global coherence through a clearer view of national trade policies.

17. The representative of the World Bank said that the Bank had followed the TNC's decisions strictly in its participation in the Uruguay Round. In its published reports, the Bank had discussed many of the themes raised in the Round from an economic point of view, without touching on negotiating strategies. He recalled that the Articles of Agreement of the World Bank required it to consider trade questions with a view to promoting the long-term balanced growth of international trade. Forty-nine countries had to date been assisted to streamline their trade régimes through structural lending programmes. He agreed with the need referred to in the European Communities paper for closer links between the Bretton Woods institutions and GATT, and suggested that the rôle of GATT in the Interim and Development Committees and those of the Bank and the Fund in GATT's biannual trade policy reviews might be enhanced.

18. It was agreed to revert to this negotiating objective at the next meeting of the Negotiating Group.

19. On a point of order, one participant requested a formal opinion on the order in which national representatives and participants from the staff of international organizations should speak in Uruguay Round meetings. At the request of the Chairman, the Secretariat called attention to the rules laid down in BISD 12th Supplement for meetings of the CONTRACTING PARTIES - the only rules laid down for the conduct of GATT business - and in particular

to Rules 17 and 18, which define the rôle of the Chairman. Practice in the Council and its subordinate bodies, where international organizations take part as observers, was that they would normally be called on to speak after contracting parties. No detailed procedures had been laid down for the Uruguay Round. The TNC's decision, on 3 July 1987, to invite the chief executives of a number of organizations to attend TNC and certain negotiating group meetings, stated that the sole purpose of such attendance is "to enable negotiating bodies to seek appropriate technical support in the field of expertise of these organizations": such support might take the form of oral responses during the meetings to requests through the Chairman for factual information on and clarification of matters concerning the relevant instruments and activities of any organization. The Chairman said that he had given the floor to a participant from an international organization to respond to a question through the Chair, and to reply promptly to direct comments. Normally he would give the floor to representatives of governments before those of international organizations. The participant who had raised the question thanked the Chairman and Secretariat for their clarifications. Calling attention also to Rule 9 of the CONTRACTING PARTIES' rules of procedure he said that the rules and practices now seemed clear.

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

20. There was a wide-ranging discussion of this negotiating objective.

21. Most participants agreed that greater Ministerial involvement was an essential element in improving the effectiveness and decision-making of the GATT and that Ministers should meet regularly to provide political guidance and initiatives, reinforce the commitment of governments to the GATT system, give greater prominence and credibility to GATT in domestic political arenas, place trends in international trade in their wider economic and political context and provide a forum for discussion on trade issues of common concern. Some said that the objectives should be broadened to include the examination of other aspects of the functioning of the GATT system, such as the international adjustment process, coordination between GATT and international financial organizations, and the impact of trade policy developments on the multilateral trading system, and that Ministers should consider a regular "strategic report" from the Director-General on trade policy questions. Others said that the objectives should be more strictly related to ensuring the observance of GATT obligations.

22. There was general agreement that regular Ministerial-level meetings of the CONTRACTING PARTIES would be desirable. Most participants agreed that such meetings should be held every two or three years. Some emphasized that to meet more frequently would detract from the special nature of Ministerial CONTRACTING PARTIES Sessions. Some, however, thought it useful for Ministerial sessions to be held, if not annually, at least every two

years. There was a widespread view that Ministerial CONTRACTING PARTIES Sessions should be clearly distinguished from official-level Sessions: the former should take major, strategic decisions affecting the GATT system, while the latter would continue to take the decisions affecting the normal functioning of contractual relations in GATT.

23. There were widely differing views on the desirability of establishing a small group of Ministers within GATT. Many participants emphasized the importance of joint action by all contracting parties as part of the GATT contractual structure. Concern was expressed that a small group might take decisions which could, even in principle, give directions to the CONTRACTING PARTIES. The importance of maintaining transparency was also stressed. Others said that transparency could be safeguarded by adequate reporting provisions, and emphasized that the objective of the proposed small group was not to be a decision-making forum; this was the prerogative of the CONTRACTING PARTIES. The size and composition of a small group were also discussed. One participant, noting that the existing informal Ministerial gatherings outside the GATT system normally numbered some thirty participants, suggested that the fifteen proposed by some participants in the Group would be too small. He suggested that such a group could be open-ended; it was unlikely that Ministers from all contracting parties would wish to participate in every meeting. Some participants thought that a small group might usefully bring into the context of GATT the present informal Ministerial discussions, while others felt that the informality and lack of commitment implied by the present system had advantages.

B. Future programme of meetings and further work of the Group

24. The Chairman proposed that, as outlined in the note on the fifth meeting, the Group should hold two more meetings before the summer break. He proposed that these should be held in the weeks of 2 May and 20 June. At the next meeting, all items of the work programme should again be discussed. A further paper would be circulated on the proposed trade policy review mechanism; other items would be discussed on the basis of existing or any new documentation. The Secretariat would produce a further revision of its compilation of all the views expressed on the trade policy review mechanism (NG14/W/18 and Rev.1).

25. One participant emphasized the need to observe an understanding reached in the GNG concerning the rhythm of meetings. This Group appeared to be moving faster than others. He suggested that the next meeting should be held later, to give more time for reflection in capitals. While some delegations supported this view, others emphasized the need to continue the progress made up to now. After an examination of the schedule of meetings it was agreed that, because of rescheduling difficulties, the next meeting of the Group would be held in the week of 2 May. Care would be taken not to overlap with the Negotiating Group on Textiles and Clothing, which was to meet in the same week. The date of 20 June was also provisionally noted for the Group's eighth meeting.