

**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 20 AND 22 JUNE 1988

Note by the Secretariat

1. The Negotiating Group held its eighth meeting on 20 and 22 June 1988 under the Chairmanship of Mr. J.L. Katz (United States). It adopted the agenda contained in GATT/AIR/2619 and Corr.1.

2. The Group had the following new documentation before it: the note of the seventh meeting (MTN.GNG/NG14/7) and a communication from Jamaica covering the three negotiating objectives (NG14/W/22). A submission by India, on behalf of developing countries, concerning Negotiating Objective (i) was circulated in the meeting (NG14/W/23).

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 international organizations responsible for monetary and financial matters".

3. The Chairman recalled that at the last meeting, many delegations had felt it important to take the debate under this objective beyond the institutional level to substantive relationships between trade, financial, monetary and development policies. Institutional relations among the relevant international organizations - not necessarily limited to GATT, the IMF and the World Bank - should promote the substantive coherence outlined in Items A(iii) and (iv) of the overall objectives of the Round. He drew attention to paragraphs 3-9 of the note on the May 1988 meeting (MTN.GNG/NG14/7) as well as the revised informal Compendium of Views recently circulated by the Secretariat and to paragraphs 9 to 11 and the Annex of the submission by Jamaica in NG14/W/22. The Group might discuss this item under three headings: the objectives of substantive coherence in global economic policy-making, and particularly the implications for the rôle of GATT in this process; issues which have been raised in the Group concerning arrangements for securing this greater coherence; and improved institutional relationships among the relevant international organizations.

4. Concerning coherence in global economic policy-making, views expressed at the last meeting were reflected in NG14/7 and the revised Compendium of Views. The GATT Secretariat had also made some relevant points in its report on International Trade for 1985/86, in which it noted a number of

developments outside the trade area which had put pressure on the trading system. Lack of new financing had put virtually the entire burden of resolving the debt-service problem on adjustment in indebted countries, mainly through import contraction; misaligned exchange rates could affect world trade indirectly by causing price signals from world markets to be less reliable; and growing trade imbalances in the world economy had exerted additional pressure on the trading system. These three aspects were additional to the more strictly "trade oriented" protectionist pressures experienced in all countries.

5. Delegations had raised a number of substantial questions concerning arrangements by which GATT might seek to achieve greater coherence. Some had stressed that improvements in the institutional effectiveness of GATT, through more enhanced surveillance and a stricter application of its rules, would contribute to greater coherence of trade policies and could also contribute to greater awareness of and coherence in the links between trade and other policies. Others had emphasized that credit in negotiations should be given to autonomous trade liberalization measures taken by developing countries. Linked to this were such questions as how far such measures might be presented as legally binding "commitments" or "contributions" within GATT by the countries concerned, and the possibility that GATT should discuss with the IMF or the World Bank, and with the countries concerned, how to maximize in GATT terms the value of the trade measures undertaken within adjustment programmes. In addition, it was suggested that procedures for mutual consultations between the GATT and the IMF on the use of trade and exchange restrictions should be reinforced. Linked to this were questions of the scheduling of surveillance exercises and the use of IMF information by GATT and GATT information by the World Bank and the IMF.

6. A number of proposals had been made concerning possible improved institutional arrangements between GATT, the IMF, the World Bank and other relevant organizations. At the institutional level, suggestions for new inter-organizational machinery included joint meetings of trade and finance Ministers or senior officials, concurrent meetings of the proposed GATT Ministerial Group and the Interim and Development Committees, more formalized inter-agency groups at the level of Directors-General and their deputies, and reciprocal attendance by heads of economic departments or divisions at relevant meetings of the Consultative Group of Eighteen or the Fund's Executive Board. One question was how such new linkages could be created while avoiding burdensome bureaucratic structures. At the Secretariat level, proposals included staff exchanges or secondments, possible wider consultation on issues of common interest, possible participation by GATT staff in consultations by the IMF and World Bank, the establishment of a GATT liaison office in Washington, and greater sharing of services among the relevant international organizations, such as the use of common data bases.

7. Participants welcomed the new submission by Jamaica in NG14/W/22. One participant emphasized that results in this field should be concrete and

operational. Although the papers presented by the European Communities and Canada (NG14/W/20 and 21) were principally institutional in orientation, he saw them as also seeking greater substantive coherence. The reference by Canada to a "restructured and reinvigorated GATT" (NG14/W/21, Annex, paragraph 14) showed a will to strengthen the rôle and leadership of GATT in trade policy questions. Reinforcement of the GATT through the achievement of Negotiating Objectives (i) and (ii) would contribute to this end. Greater coherence could also be achieved by high-level discussions of trade policies in GATT, among senior officials from capitals, in a Trade Policy Committee, as had been proposed in NG14/W/7. This could allow more rigorous discussions than in the existing special Council meetings. Strengthening relationships with financial and monetary institutions should follow from the reinforcement of GATT. GATT's voice in these relationships should be strong and independent, but simple structures should be sought for cooperation. He suggested that an ad hoc staff group of the GATT, the IMF and the World Bank could begin to examine the connections existing among the organizations.

8. Another participant noted that all main trade and financial organizations were undergoing a period of questioning and reform. For GATT, the Uruguay Round raised major questions concerning the structure of international trading relationships, which would affect the rights and obligations of contracting parties and should strengthen GATT's contribution to global policy-making. Answers to questions concerning such areas as agriculture, tropical products, textiles, safeguards and grey-area measures must be found. At the same time, such subjects as conditions for balance-of-payments support, structural adjustment policies, and so forth were under discussion in international financial institutions. Progress should be made on these substantive issues before turning to inter-institutional relations: in addition, the relationships of GATT with other organizations than the IMF and IBRD, including UNCTAD and regional banks, should be examined. Discussion in the Group should also take account of the differences in the mechanism for participation, including voting rights, existing in the different institutions.

9. A number of participants agreed that coherence within the GATT system should be sought through the achievement of all three negotiating objectives. They stressed the need to strengthen the GATT in political terms vis-à-vis other international institutions. More specific proposals in this field would be provided. Cooperation was necessary at both inter-secretariat and political levels (perhaps through a joint ad hoc committee) in order to avoid incoherence among policies recommended by the various institutions. While GATT could contribute to international policy coherence, and to development, though encouraging greater trade liberalization and structural adjustment, it was necessary to ensure that what was done in other entities did not handicap these efforts. Trade policy concerns should become more central, while placed in a context of a more stable international monetary and financial system. One participant, emphasizing the variety of interlinkages between trade and other economic and financial policies, said that improved discipline over trade policies,

a greater awareness of their impact on other countries and the evolution of better analytical tools would make a major contribution to coherence of policy through the achievement of the first negotiating objective. A further contribution could be made by strengthening the GATT decision-making process through closer involvement of Ministers. The third negotiating objective should not be read exclusively as referring to strengthening GATT's links with other international organizations, although this could make a further important contribution to the overall development of greater coherence. It was not the objective to seek greater harmonization with the IMF in order to put greater pressure on certain countries. The Annex to NG14/W/21 clearly emphasized the distinct nature of the GATT from the international financial institutions: it was created for different purposes and its institutional structure was also completely different. It was strange, however, that in recent years a "non-trade" organization such as the Fund had been more active in discussion of trade policies with its members than had the GATT.

10. Other participants wondered how far "coherence in global economic policy-making" could be achieved by improving the rôle of GATT and its relations with other international economic institutions. One participant noted that the trade and financial environment facing developing countries in particular, including access to technology, had markedly deteriorated since the 1970s, principally because of the growth of imbalances between major economic entities. Even in the 1960s, when economies were still expanding in a stable financial, monetary and exchange environment, access to markets had begun to be restricted despite tariff-cutting efforts. More recently, trade benefits had been eroded or nullified because of incoherent monetary and financial developments. The growth of international indebtedness, with its serious effects on trade, also resulted from incoherences in these other areas. Such developments severely limited the possibilities open to GATT as an institution. It would be a major contribution to the work of the Group to recognize both that GATT, by itself, could make only a relatively small contribution to coherent global economic policy-making, and that any contribution made by GATT could be circumscribed by incoherent developments in the monetary and financial areas. The issue of interdependence of trade, money, finance and development had figured on the agenda of another institution for some years, without much result: similarly, calls for an international conference on money and finance for development had had no result. It would be unrealistic to expect that the secretariats of the relevant institutions could solve such political problems through greater cooperation; greater political understanding and will were required.

11. In a second intervention, he stressed that the link between trade and other elements of global economic policy-making should not be confined to finance to resolve the debt problem but should take in other aspects of development financing and technology. The Chairman's introductory remarks could be expanded into a more general paper, drawing on the history of the 1950s and 1960s and bringing the relationship with development more clearly into the centre of its concerns. Institutional arrangements should be

discussed in the light of these questions. He agreed with the statement by the European Communities' representative at an earlier meeting that the GATT should contribute to greater awareness of and coherence in the links between trade and other policies. While measures such as credit for trade liberalization and mutual consultations among institutions on exchange restrictions might make a contribution, they were at best marginal to the overall issue of global economic policy-making. In his view, there were two major, specific contributions which GATT could make to creating greater coherence, or at least to avoiding incoherence. One was to agree not to seek solutions for problems originating in other areas, through trade policies and in GATT. The second was to enhance the awareness of the linkages between trade policies and other monetary or financial policies, and in particular of how trade policy achievements can be eroded or nullified by the absence of appropriate monetary, financial and fiscal policies.

12. Other participants, supporting these views, stressed that reform of the trading system also implied increased finance for development and greater monetary stability. The policies of each organization within its own jurisdiction should be improved. One participant suggested that, in its Article IV consultations, the IMF should encourage developed countries to adhere closely to standstill and rollback commitments and not to take new protective measures. Another participant said that "coherent" international economic policies would be, for his country, those which provided stable and predictable flows of resources and liquidity for both trade and development. It was emphasized that closer links between GATT and other international institutions should not imply greater "conditionality" or closer surveillance only of developing countries' domestic policies, but rather closer surveillance of developed countries' trade policies. Another participant suggested that the "provisional" legal status of the GATT should be addressed in order to place the General Agreement on a firmer legal basis vis-à-vis the international financial institutions, and supported the call for closer links with other organizations such as UNCTAD and regional development banks.

13. One participant said that substantive problems of indebtedness, protectionism and global imbalances were of concern to all; however, he believed that better discussion of these questions could be fostered through closer institutional links. The Group should focus on practical ways of establishing mechanisms to encourage the exchange of information among the institutions. He saw no legal impediments to improved contacts: a major goal of such approaches should be the strengthening of the GATT. The fact that this Negotiating Group could not resolve the problems of the trade-finance link should not inhibit its discussion of these questions. At the same time, the limits of institutional relationships should be clear: GATT could not require other institutions to take any actions, nor vice versa.

14. Another participant suggested that GATT and other organizations should jointly examine the links between trade, monetary and financial policies

and the impact of each on the others; an examination should also be made by the GATT of how monetary and financial developments had affected GATT tariff concessions, and the effects on trade of developments in international liquidity. Another suggested that greater cooperation on substantive questions between GATT and other organizations should be achieved at two institutional levels: initially among member states, with inter-secretariat links established in the light of the substantive objectives to be achieved. He hoped to put forward some written proposals at a later stage.

15. Commenting on statements by other delegations, one participant said that closer relationships between the staff of the institutions could lead to better political decision-making and help to avoid contradictions in "global" policy-making. A central concern should be to ensure that better care was taken of the interests of trade. Another participant said that the aim of the group of countries for which he spoke was to try to create appropriate trade policies for the promotion of a rational worldwide production structure. Trade policy, finance, monetary and development policies were closely interlinked; participants should try to ensure that policies pursued in all the different fields were mutually supportive and reinforcing. A return to stricter application of its own rules could be a major contribution by GATT to greater coherence, while good arrangements for cooperation would help to redress the imbalances between GATT and the international financial institutions.

16. One participant, recalling the two submissions by his delegation in NG14/W/11 and 22, stressed that the three parts of the negotiating objectives should be examined together in the light of the aims expressed in the Ministerial Declaration, of increasing the responsiveness of the GATT system to the evolving international environment. National policy measures should be consistent with international conditions and obligations. There was no need to change the mandate of the GATT or of any other international institution. However, any changes in the operation of GATT should contribute to the objectives of sustained and non-inflationary economic growth, and to the development and diversification of developing countries' economies. Trade policy must also address the problems arising both from severe deficits and structural surpluses. "Coherence" could be regarded both as consistency between macro-economic policies in different countries and as consistency between trade policies, other micro-economic policies, and macro-economic policies. Enhanced surveillance should not lead to increased GATT obligations but, through moral suasion, to bringing these elements together. Performance criteria and norms for assessing the degree of consistency between different policies should also be evolved. As suggested in the Annex to NG14/W/22, decisions on institutional measures should await further elaboration of the possible content of such collaboration. He recalled the proposals for contributions by the Bank, Fund and UNCTAD representatives contained in the Annex.

17. Some members questioned whether the proposals before the Group were likely to move the negotiations in an appropriate direction to improve

global economic policy-making. One noted that the dominance of major countries meant that others could only accept the consequences of their financial, monetary or trade policies. Exchange of information among organizations could no doubt be useful but it would not be appropriate for GATT to intervene in the concerns of the Fund or Bank or for these organizations to intervene in GATT's business. Nor should there be any closer surveillance of small countries whose influence on world trade was minuscule. Another warned against exacerbating existing asymmetries through closer coordination among the organizations. GATT had a clear mandate in the field of trade; a stronger GATT should lead to an enhanced multilateral environment and better rules and disciplines. Discussion of the trade/finance links should not only take place with selected organizations.

18. One participant said that the "coherence" which the Punta del Este Declaration sought in global economic policy-making did not imply that there was something which could be described as "global economic policy" or a "world macroeconomic framework". It was also not accurate to claim that only developed countries defined this framework and held all the leverage in it, nor that only those countries had responsibility for seeking coherence. All contracting parties must be involved in the evolution of such coherence.

19. Some delegations recalled that the functioning of the GATT system was not included under the Punta del Este Declaration heading, "Subjects for Negotiation", but placed in a separate and corollary heading. The work of this Negotiating Group should therefore be considered in relation to the rest of the negotiations. In this context, reference was made to the statement by the Chairman of the Trade Negotiations Committee in Punta del Este, following the adoption of the Declaration. The strengthening of the GATT, in order to make a greater contribution to the coherence of global economic policies depended on the outcome of the whole Round of negotiations. Within this Group, most progress had been made on surveillance of trade policies; the fourth revision of the Chairman's discussion paper made an important contribution. Some interesting discussions had also been held on strengthening the decision-making process and Ministerial involvement. This third aspect of the Group's work was more complex. Strengthening of the GATT depended in part on structural reforms in the operation of the General Agreement itself, including questions of waivers, the safeguard clause, standstill and rollback. Trade should be a dynamic factor stimulating economic growth and development. There was no need to wait for the outcome of other Negotiating Groups to make progress on the first two aspects of the mandate; but in this third aspect there was not yet any conceptual framework regarding procedure. It was therefore important to go more deeply into the objectives of coordination with other economic and financial institutions, and to have a clear idea of the desired end-product. Structural reforms should be related to such objectives: premature and simplistic solutions should be avoided.

20. The Chairman thanked participants for their contributions. A very useful discussion of the substance of the issues behind the Group's work had been held. He agreed that the strengthening of the GATT system could not result from this Negotiating Group alone or any other single Group, but this should not prevent progress from being made. He invited delegations which had announced their intention to make submissions to do so in good time before the September meeting of the Negotiating Group. He would give consideration to requests for other documentation.

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

21. The representative of Australia thanked the Chairman for his revised discussion paper on greater Ministerial involvement. He noted that previous discussion of this question had revealed some fundamental concerns. For his delegation, the need to establish a smaller Ministerial group was demonstrated by the existence of regular informal Ministerial meetings on trade issues, outside the GATT framework. Three concerns would, however, need to be addressed if such a group were to be established in GATT: how to establish the legitimacy of the group, how to ensure transparency, and what the group would do. To establish such a group in a legitimate manner would require the support of all contracting parties. To gain such support and to ensure adequate transparency, all contracting parties would need to have a right and an opportunity to participate in its work. The functions of such a group would need to be defined so as to allay fears that the formal decision-making structure of the GATT might be eroded. In this connection, he noted that the present informal meetings of trade Ministers did not exert any executive responsibilities, but provided a forum for consultations. This might be expressly stated in the definition of the group's functions.

22. Members generally expressed their appreciation of the Chairman's discussion paper. There was a wide measure of agreement that more regular Ministerial meetings open to all contracting parties would be desirable. Different views were expressed about the frequency of such meetings. Some participants agreed that these should be held not less frequently than every three years. Others expressed a strong preference for such meetings at least every two years, and more frequently if desired. One delegation, however, expressed the view that such frequent meetings might trivialize Ministerial involvement.

23. Many participants commented on the Australian remarks on a small Ministerial group. One participant noted that although participation in the existing informal Ministerial meetings outside GATT was arbitrary, they had given good results. The problem with institutionalizing such a group would be to ensure that it was sufficiently representative. He referred to the difficulties experienced with membership of the Consultative Group of Eighteen. Adequate rotation of membership would be essential. He also

wondered whether the proposed group would replace the CG.18 and recalled that one of the functions of the CG.18 had been to prepare the ground for policy discussions in the CONTRACTING PARTIES. A second supporting the approach outlined by Australia, said that his delegation would be prepared to begin detailed discussions of the questions of legitimacy, functions and composition of such a group. Another said that the composition of such a smaller group could perhaps be linked to the adoption of greater responsibilities in the trading system by its members. Another agreed that the present informal meetings should be brought within the GATT system. Participation in the small Ministerial Group should, however, be discussed after its rôle were defined. The link between the group and the CONTRACTING PARTIES should be carefully elaborated to ensure the greatest possible transparency: in this connection he felt there could be a special rôle for the Director-General. The small group should not have executive functions and should not represent the CONTRACTING PARTIES as a whole. Other participants also stressed the need to define the functions of the group, its relationships with existing GATT bodies including the CG.18, and how to ensure full transparency and adequate participation for smaller contracting parties. It was noted that the Punta del Este Declaration implied greater Ministerial participation than simply taking part in the CONTRACTING PARTIES' Sessions. One participant said that changes in GATT increasingly reflected the political realities: GATT now appeared to function more clearly in the interests of small countries. It was emphasized that the conditions for composition of a small Ministerial group must ensure the possibility that every contracting party could, potentially at least, be represented.

24. Some participants remarked that although the proposed small group might be consultative in nature, its opinions would carry considerable weight. Lack of representativity in the Consultative Group of Eighteen presented a bad precedent for the formation of such a small group. They recalled their previous suggestions that Ministerial-level meetings should be open to all, but with active participation limited to those delegations represented at Ministerial level. This would provide the needed legitimacy and avoid the problems of selective membership. Such meetings could also have the power to take substantive decisions.

25. Other participants continued to express serious doubts about the value of a small Ministerial group. One participant reiterated that the rôle envisaged for Ministerial participation was one of overview of the GATT system, general examination of trade policies, reinforcement of the decision making process and the assurance of coherence among economic policies. These objectives, to the aggregate of which his delegation attached great significance, were too important to be entrusted to a small group of Ministers. They should therefore be considered by full sessions of Ministers which should meet every one, or at most two, years. Another participant said that the need to create a limited group was not evident. He questioned whether the establishment of such a group would contribute to increasing contracting parties' commitment to GATT rules or improve the effectiveness of the General Agreement. Informal meetings outside the GATT

framework had the advantage of not implying commitments by any participant; bringing such gatherings within GATT could give them greater apparent authority while remaining unrepresentative of contracting parties in general. The situation in GATT should not be compared with those in some other institutions where small groups had an integral part in the decision-making process. Another remained sceptical about the feasibility of a small group because of the problems of composition. Another said that the interests of small and least-developed countries would be only peripherally represented. Another referred to the need to maintain the overall balance of rights and obligations and called attention to problems of transparency as they might affect smaller delegations.

26. The representative of Australia reiterated that informal Ministerial meetings were of obvious value. Expanding membership of GATT, and changes in trade patterns and significance among contracting parties, implied the creation of new structures which could enable key countries to exercise their appropriate rôle in the trading system. Efforts must be made to design a structure within GATT which would be representative and could replace the unrepresentative informal meetings outside the GATT system. Any small group must be legitimate and permit all countries with a stake in the trading system to express their voices. The CG.18's legitimacy had been weakened by the problems of representation mentioned by other participants. This Negotiating Group had a collective responsibility to design a structure which would ensure effective Ministerial involvement and discourage the practice of unrepresentative groups of Ministers meeting outside the GATT. Specifically, the Group should affirm that a small Ministerial group would operate within the framework of the GATT, that it would be created by the CONTRACTING PARTIES, would be representative of all contracting parties, that its membership would be determined annually by the CONTRACTING PARTIES, and that it would be accountable to them. Such elements would help to establish the critical principle of legitimacy for a small Ministerial group.

27. The representative of Australia said that he did not regard an open-ended group with full powers as a viable alternative. This already existed in the CONTRACTING PARTIES, which Ministers could attend at any time. The proposal for full Ministerial Sessions every two or three years would fill that rôle. Moreover, a group of over ninety members was not an effective forum for consultations. He thought that the trivialization of Ministerial participation was more likely to result from full annual meetings at Ministerial level. The relationship with the CG.18 should be examined basically for "housekeeping" reasons: he recalled that the initial thinking behind the CG.18 was to ensure regular, capital-based senior-level participation in the GATT.

28. The Chairman thanked delegations for their statements. The objective of his discussion paper had not been to create a negotiating text but to focus on certain issues. From the discussion in this meeting, he saw that there was a high degree of support for regular Ministerial meetings at the level of the CONTRACTING PARTIES. Strong views had been expressed on all

sides concerning the creation of a small group, but many useful points had been made concerning the conditions which might be laid down for its possible creation. He encouraged participants to give consideration to the formulation of texts which might serve as a basis for negotiations.

29. The representative of Sweden, on behalf of the Nordic countries, recalled the proposals made in MTN.GNG/NG14/W/27 concerning evolution of the rôle of the Director-General and Secretariat, and procedures and rules for decision-making. In their view, an important outcome of the Uruguay Round would be to give GATT stronger institutional powers and a clearer identity. Contracting parties should accept that the Secretariat and Director-General assume new responsibilities. A more active rôle for the Director-General could include initiating studies of major trade problems or proposing negotiations in particular topics, as well as taking the responsibility of presenting strategic papers to Ministerial meetings on the evolution of trade policies. The Nordic countries also felt that the consensus practice should be reviewed. It should not be necessary to require full consensus on "minor" questions such as requests for documentation or studies.

30. A number of participants supported the proposals by the Nordic delegations that the rôles of the Secretariat and Director-General should be reinforced to allow them to take greater initiatives. One participant recalled its proposals (NG14/W/10) for augmenting the Secretariat's capacity to analyze aspects of world economic trends and the implications for trade policy. Others, while agreeing with the need to ensure a strong Secretariat and Director-General, questioned whether it was necessary to make formal provisions. Another said that the rôle played by the Director-General and Secretariat in the years since the 1982 Ministerial Meeting displayed a high degree of effectiveness and professionalism. It would be preferable to see the implications of the Uruguay Round for the Secretariat and Director-General, rather than to envisage new functions at this stage. Another recalled the central rôle envisaged in his delegation's proposals (NG14/W/20) for the Secretariat and Director-General in managing the notification system, preparing trade policy reviews and establishing working relationships with the IMF and the World Bank, and the necessary increase in resources which this would imply. Others stressed that in GATT, the CONTRACTING PARTIES acting collectively provided leadership: this had implications for both Ministerial participation and the rôles of the Secretariat and Director-General. One participant asked for more information on the existing functions of the Director-General and suggested that the Secretariat should put before the Negotiating Group at its next meeting estimates of the staffing and financial implications of the proposals made in the Group. Others suggested that the legal status of GATT should be placed on a firmer footing in order to provide a clear rôle for the Secretariat and Director-General.

31. There was a general feeling that the question of consensus should be approached with great caution. It was suggested that the Secretariat might provide a note on Council decisions which could be considered as "major" or

"minor", including those which had not been taken for lack of consensus. It was stated that in general the consensus practice had served the GATT well.

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 functioning of the multilateral trading system"

32. The representative of India, introducing document MTN.GNG/NG14/W/23 on behalf of developing countries, said that it was necessary to establish procedures for enhanced surveillance through regular monitoring of the trade policies and practices of the major trading countries with a predominant impact on the multilateral trading system, so as to ensure symmetry in surveillance in the GATT. This surveillance would not serve as a basis for enforcement of specific GATT obligations or dispute settlement procedures, and would not require any new GATT obligations. Nor was it intended to lead to conclusions or recommendations of a binding nature. It should lead to improved adherence to the rules and disciplines of the GATT and should thus serve to strengthen the multilateral trading system. The principles of GATT would underlie such surveillance. It would be confined to trade policies and practices and would not encompass the general economic policy. In the case of developing countries, reviews should also focus on their trade problems and prospects in the context of external developments, including the impact on their trade of developments in the financial and monetary environment. It was accepted that all contracting parties would be subject to periodic reviews; however, a longer time-frame should be envisaged for less-developed contracting parties, and in particular the least-developed. In addition, a simplified reporting format should be considered for the least-developed contracting parties. It would also be unproductive for contracting parties subject to consultations under GATT balance-of-payments provisions to be subjected to another review within twenty-four months of such consultations. The GATT Council, in its open-ended periodic special meetings, should be the proper forum for the enhanced surveillance; the process of periodic review of trade policies and practices should be self-contained in GATT. It was not considered necessary for teams to visit capitals. There should be an agreed format for the preparation of factual background notes by the Secretariat incorporating all relevant elements of notifications to GATT. The final report of the review body should be published. The relationship of the review process to the current special meetings of the GATT Council should also be addressed. In addition to the country-specific monitoring of trade policies and practices, the procedures for enhanced surveillance could also incorporate an overview of developments with a major impact on the multilateral trading system, assisted by a background report by the GATT Secretariat along the lines of the documentation prepared for the special GATT Council meetings. The procedures for enhanced surveillance should also seek to strengthen the "early warning" rôle of the Special Council meetings.

33. The Indian representative emphasized that the paper was presented as a contribution to the Group's work, and was not intended to supplant or substitute for the Chairman's discussion paper. It spelled out some developing countries' specific concerns. For them, the concept of "enhanced surveillance" contained a stronger connotation of moral suasion than did "trade policy review". It was also necessary to consider the rationalization of GATT notification procedures, as mentioned by various participants, including Jamaica in NG14/W/11; the substance of each contracting parties' trade policies and practices should emerge from the aggregate of notifications made to GATT. Reports by consulting countries should set out profiles of their trade policies and practices; the format envisaged for such country reports should therefore be sufficiently flexible to allow all factors deemed relevant to be mentioned.

34. A number of participants spoke in support of the paper presented by India. One participant emphasized that the financial and monetary environment should be adequately taken into account, and that less burdensome reporting requirements should be applied to the least developed countries. Another, also commenting on the Chairman's discussion paper, questioned the need for surveillance of trade policies to be placed in a broader context of national policy objectives, recalled the differences between the two texts concerning treatment of countries consulting under balance-of-payments provisions and emphasized that reviews should be conducted in special meetings of the GATT Council and that it should not be necessary for discussions between the Secretariat and consulting countries to take place outside Geneva. He stressed the need for any reporting format to be compatible with the Integrated Data Base. Another recalled the understanding that enhanced surveillance did not imply any new obligations; nor did the reporting and review procedures implied in the Chairman's discussion paper. Great care should be taken not to create new notification requirements without first establishing the need for them and rationalizing the approximately fifty mechanisms currently existing in the GATT. The frequency of reviews, and criteria for selection of countries, should be directly related to their impact on the functioning of the multilateral trading system. The review of trade policies of developing countries should be oriented towards their trade problems and prospects. The impact of developments in the financial and monetary environment on the trade policies of developing countries should be taken into account. Further consideration should also be given to incorporating the existing review of developments in the trading system into procedures for enhanced surveillance. Another noted that annual reporting requirements for all contracting parties were burdensome on small administrations and risked becoming repetitive and routine. Arrangements should be as functional and practical as possible. Another said that a way must be found to reconcile preferential treatment in reporting requirements for less-developed contracting parties with the principle of non-discrimination, in order to allow each one to respond according to its possibilities. He recalled his proposal that country reports should also contain references to the laws governing external trade in each contracting party; and that the criteria for frequency of examinations, and the definition of the "core" and "non

core" groups of countries (the second, fourth and fifth sentences of paragraph 4 of the Chairman's discussion paper) should be kept entirely open at this stage. While the surveillance procedures could introduce a good deal of self-discipline for consulting countries, they should not become too complicated. Other participants also supported the emphasis in NG14/W/23 on the nature of surveillance, the trade problems and prospects of developing countries, and the impact of financial and monetary developments. One participant reiterated his difficulties with the idea contained in the Chairman's paper concerning the possibility of early reviews.

35. One participant noted that, while the Chairman's discussion paper had not yet found the right balance on such questions as frequency of reviews, treatment of EC Member States and of balance-of-payments consulting countries, the paper presented by India on behalf of developing countries appeared to concentrate too heavily on the principal trading countries. Another, while preferring more frequent reviews, was prepared to accept two-yearly reviews for the four largest trading entities of which his was one, and four-yearly reviews for the "core group". He understood the sensitivity attached to the possible review of EC Member States but could not accept an exception for the Community: the last sentence of paragraph 4 of the Chairman's note should be maintained. It was understood that internal monetary and financial policies were not the subject of reviews: however, these should be taken into account.

36. Another participant, while noting many common features between NG14/W/23 and the views of the group for which he spoke, saw major differences on the questions of frequency of review, procedures and format. The basis of the review should be the Secretariat report: country reports should remain purely factual. He recalled his earlier proposal that a small group of "discussants", selected from all contracting parties, should lead the discussion in the review body. Such discussants, who should act on a personal basis, should not take part in the preparation of the documentation, and should be selected from a list of interested persons by the Secretariat. Another participant said that the developing countries' paper showed some interesting rapprochements of views. Trade policy surveillance should neither be too narrow, in that it should cover all elements affecting trade, nor too broad. The boundary was not easy to draw. He, and another participant considered that external factors, as proposed in the developing countries' paper, should be included in the review of all contracting parties. The objective of reviews should be to provide external pressure to encourage internal debate on policy questions. Therefore, periods between consultations should not be too long. On the other hand, duplication of other consultations should be avoided. A further participant, supporting the Chairman's discussion paper, agreed that effective surveillance was essential for the functioning of the multilateral trading system. Trade policies and practices should be placed in the context of wider economic policies. All contracting parties should be subject to review: his delegation would prefer cycles of 1, 2 and 3 years to 2, 4 and 6. The proposed trade policy review mechanism should be

the principal, all-encompassing surveillance system of the GATT; other existing surveillance mechanisms should be modified in consequence. The GATT Secretariat must be able to conduct independent reviews and assessments of trade policies: the proposals in paragraph 8 of the developing countries' paper thus gave concern. He suggested that informal discussions could be held on the points of difference between the Chairman's discussion paper and the paper submitted by developing countries. Another agreed that reviews must be comprehensive and that trade policies and practices must be set in their broader context, without implying analysis or critique of wider economic or development policies: 2, 4 and 6 year cycles of consultations were acceptable, while placing a greater burden on his authorities. He could accept that trade policy reviews and balance-of-payments consultations should not coincide, for administrative reasons. Unfortunately, countries often failed adequately to notify balance-of-payments related measures before consultations; moreover, the documents prepared for consultations often described trade restrictions only in general terms without giving complete information on products or sectors covered. Balance-of-payments consultations were intended to evaluate the consistency of trade measures with GATT rules, while the trade policy review mechanism should provide as much factual information as possible on trade régimes. The review body should be the Council in special session; reports should be published promptly after consideration by the Council. A review of the trade policy review mechanism should be carried out at some appropriate time. The paper submitted by developing countries (NG14/W/23) was a useful contribution, with much of which he could agree. However, he could not agree with the 24-month exception for balance-of-payments consultations; with respect to paragraph 8 of the paper, he was disturbed by the absence of reference to participation by senior trade officials which his delegation regarded as a very important element in raising the profile of and awareness of the GATT; he also regarded visits to capitals as valuable, and queried the phrase "self-contained in the GATT"; he was also concerned about the implications for transparency of the idea that the contracting party would provide a report including "such background information as it deems appropriate".

37. The Secretariat, reporting on two informal consultations held on a format for country reports, noted that there appeared to be quite broad consensus on what should go into reports by consulting countries. The main difference of view concerned whether the smaller countries in world trade (i.e. the least-developed countries and others with a very small share in total trade of the CONTRACTING PARTIES), should report on a more limited scale. There was general recognition that the format adopted would have to conform to the terms of the basic decision to be taken in the Group regarding the structure and coverage of the review mechanism itself. During the consultations, the proposal was also made that a similar exchange of views could usefully be held on the actual review process, i.e. on the documentary and other responsibilities of the various parties involved in the review process, and the sequence the process might follow. As a first step, the Negotiating Group could seek clearer understanding

about the relative responsibilities in the review process of the reporting country, the Secretariat, and other contracting parties.

38. The Group also discussed the question of notifications, in the light of the present commitments in the Understanding on Notification, Consultation, Dispute Settlement and Surveillance, and proposals made by participants for a broad, general obligation to notify all new trade measures, a common format for notification under each Article or provision of the General Agreement, simplification or standardization of notifications and a central repository for all notifications. The view was expressed that notification obligations had not been given the full respect necessary to ensure transparency. Some delegations felt that a general obligation to notify was necessary. Common formats should be introduced and all notifications should pass through a central point. Others stressed the need to simplify the range of notification procedures. The need to ensure compatibility with the Integrated Data Base was also emphasized.

39. The Chairman, summing up, noted that the discussions on this Negotiating Objective had led to much clearer understanding of the issues and the range of views expressed. His papers had been intended to promote such discussions. He encouraged delegations to give consideration to the formulation of texts which might serve as a basis for negotiations.

Future work of the Group: Dates of Next Meetings

40. It was proposed that the next meetings of the Negotiating Group should be held in the weeks of 26 September and 24 October 1988.