

**MULTILATERAL TRADE  
NEGOTIATIONS  
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG14/W/30

24 October 1988

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Group of Negotiations on Goods (GATT)

Negotiating Group on Functioning  
of the GATT System

Original: English

COMMUNICATION FROM A NUMBER OF CONTRACTING PARTIES

The following communication has been received on behalf of a number of contracting parties with the request that it be circulated to the members of the Group.

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The decision to launch the Uruguay Round of Trade Negotiations was taken against a background of large external imbalances in major industrial economies and acute debt servicing difficulties in a number of countries, particularly developing countries. In the process of adjustment to these imbalances, trade policy has a vital rôle to play in promoting conditions of growth and development. The significance of trade policy-making in this context needs greater political and institutional recognition.

At the same time, since developments in other areas of economic policy have an important impact on the trading environment, solutions in the realm of trade policy need to be reinforced by continuing concerted efforts to attain greater coherence in global economic policy-making required by the trend towards growing global interdependence.

The Uruguay Round represents an opportunity to approach a number of these issues. At the Mid-Term Review, it is already possible to take some first steps in all the three closely linked areas identified by Ministers as the particular responsibility of the Negotiating Group on Functioning of the GATT System.

Three general orientations have guided the Negotiating Group:

First, the key contribution GATT and the Uruguay Round can make to achieving greater coherence in global economic policy-making will be to ensure a further expansion and liberalization of trade as well as a strengthened multilateral trading system which are of vital importance to

all contracting parties and which are essential for the promotion of growth and for the development of developing countries.

Second, a framework for consultation and coordination between GATT, the IMF and the IBRD can be developed which would assist each institution, acting within its own sphere of competence, to formulate policies to foster growth and development.

Third, the GATT can improve the coherence of its own institutional operations and enhance the rôle of GATT in trade policy decisions, nationally and internationally. The package of measures described below covering surveillance of countries' trade policies, the greater involvement of Ministers in GATT affairs, and cooperation with the international financial institutions will help to maintain a central rôle for the GATT in global economic policy-making, and provide a basis for further work by the FOGS Negotiating Group in the second half of the Uruguay Round.

(i) Trade Policy Review Mechanism

The Ministerial Declaration on the Uruguay Round calls for negotiations that "shall aim to develop understandings and arrangements ... 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". The Negotiating Group on Functioning of the GATT System recommends that Ministers take the following decision:

To carry out the mandate given in the Ministerial Declaration, the CONTRACTING PARTIES decide to establish a trade policy review mechanism.

I. Objectives

1. The purpose of the mechanism would be to contribute to improved adherence by all contracting parties to GATT disciplines and commitments, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, national trade policies and practices. The review mechanism would enable the regular collective appreciation and evaluation by the CONTRACTING PARTIES of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. It will not, however, be intended to serve as a basis for the enforcement of specific GATT obligations or for dispute settlement procedures.

2. The CONTRACTING PARTIES will carry out an assessment of national trade policies and practices. This assessment will be set, to the extent relevant, in the context of the wider economic and developmental policies and objectives of the contracting party concerned, but it will not evaluate these wider policies. Such an assessment will take account of the external trading environment facing the contracting party concerned as well as the impact of international financial and monetary developments on its trade policy.

II. Reporting

3. In order to achieve the fullest possible degree of transparency, each contracting party shall report annually to the CONTRACTING PARTIES. Full reports shall be provided in years when the contracting party is due for review; subject to this requirement, the first full report may be submitted up to two years after the introduction of the mechanism. Between reviews, brief annual reports will be provided outlining any changes in trade policies since the previous reports together with an update of the statistical information according to the agreed format. Full reports will describe the trade policies and practices pursued by the contracting party or parties concerned, based on the agreed format to be annexed to the Decision of the CONTRACTING PARTIES establishing the review mechanisms.

Information contained in country reports should to the greatest extent possible be coordinated with notifications made under GATT provisions.

### III. Frequency of review

4. The trade policies and practices of all contracting parties will be subject to periodic review. Their impact on the functioning of the multilateral trading system will be a determining factor in deciding on the frequency of reviews. For this purpose, based on the average share of world trade accounted for by the contracting party or parties concerned over a recent representative period, a "core group" of twenty trading entities (counting the EC as one) will be identified, with the four major trading entities subject to review every two years and the rest every four years. Other contracting parties will be reviewed every six years. It is understood that the review of entities having a common external policy covering more than one contracting party shall cover all components of policy affecting trade including relevant policies and practices of the individual contracting parties. In the event of a major change in a contracting party's trade policies or practices, the contracting party concerned may be requested by the Council after consultation to have an early review.

5. Contracting parties recognize the need to minimize the burden for governments also subject to full consultations under the GATT balance-of-payments provisions or consulting on the full range of their trade policies and practices under Protocols of Accession. To this end, the Chairman of the Council shall, in consultation with the contracting party or parties concerned, and with the Chairman of the Committee on Balance-of-Payments Restrictions or the relevant GATT working party, devise appropriate administrative arrangements to provide for an efficient scheduling of meetings and use of documentation.

### IV. Review Body

6. Trade policy reviews will be carried out by the GATT Council at periodic special meetings.

7. In the light of the objectives set out in Section I above, discussions in the meetings of the Council may cover any aspects of trade policies and practices, and may take into account, to the extent relevant, the wider economic and developmental policies and objectives of the contracting party concerned. Moreover, the discussion will take into account the external trading environment facing the contracting party concerned as well as the impact of international financial and monetary developments on its trade policy.

8. The Council will establish a basic plan for the conduct of the reviews. Each session of the Council might last about four days, and cover two or three core countries plus some non-core countries. On this basis, there could be about three sessions a year. In consultation with the contracting parties under review, the Chairman will choose discussants who,

in their personal capacity, will introduce the discussions in the review body.

9. The Council will base its work on the following documentation:

- (a) the full report supplied by the contracting party or parties under review;
- (b) a report, to be drawn up by the Secretariat, based on the information available to it and provided by the contracting party or parties concerned and on discussions between the Secretariat and officials of the contracting party under review. Such discussions [may]/[should] be held in the relevant capital. The Secretariat shall prepare a list of appropriate questions to be submitted in advance to the contracting party or parties under review. Contracting parties wishing to put questions in advance to the contracting party or parties under review should provide them in good time to the Secretariat. The Secretariat's draft report will be submitted to the contracting party or parties under review for comments before finalization, but will remain the responsibility of the Secretariat.

10. The report supplied by the contracting party under review, the report drawn up by the Secretariat and the summary record of the respective meeting of the Council will be published promptly after the review.

11. These documents will be forwarded to the next regular Session of the CONTRACTING PARTIES, which will take note of them.

#### V. Implementation and reappraisal of the mechanism

12. The trade policy review mechanism will be implemented on a provisional basis as of 1 January 1989. In the light of the experience gained from its operation, the CONTRACTING PARTIES will review, and if necessary modify, these arrangements at the end of the Uruguay Round.

(ii) Greater Ministerial Involvement in the GATT

The Ministerial Declaration on the Uruguay Round calls for negotiations that "shall aim to develop understandings and arrangements ... to improve the overall effectiveness and decision-making of the GATT as an institution, including, inter alia, through involvement of Ministers".

The Negotiating Group on Functioning of the GATT System recommends that Ministers take the following decisions:

1. Contracting parties will meet at Ministerial level at least once every two years, in order, inter alia,

- to make a fuller contribution to the direction and content of GATT work;
- to reinforce the commitment of governments to the GATT system;
- to give greater prominence to GATT in domestic political arenas;
- to assess trends in international trade and place these trends in their wider economic and political context; and
- to enable the CONTRACTING PARTIES to contribute effectively to international discussion at the policy level of the international adjustment process.

2. The Negotiating Group on Functioning of the GATT system will continue to examine the appropriateness of the establishment of a small ministerial group within the GATT, taking into account, inter alia, the following considerations:

- (a) the group would be consultative in nature, and not a decision-making body;
- (b) the operation of the group would not in any way affect the rights and obligations of any contracting party;
- (c) the composition of the group would be determined by decision of the CONTRACTING PARTIES;
- (d) the composition of the group would be balanced to ensure participation of small, medium and large contracting parties; would be representative of the range of interests of contracting parties; and no contracting party would be permanently excluded from the group; and
- (e) the contracting parties would be informed about the deliberations in the group; all background documents made available to the group, as well as any documents or reports resulting from deliberations in the group, would be made available to all contracting parties.

If it were agreed to establish such a group, the Negotiating Group on Functioning of the GATT System should come forward with recommendations before the end of the Uruguay Round.

3. The Negotiating Group on Functioning of the GATT System should continue to explore other means by which to improve the overall effectiveness and decision-making of the GATT.

(iii) Increasing the contribution of the GATT to achieving greater coherence in global economic policy-making

The Negotiating Group on Functioning of the GATT System recommends that Ministers take the following decisions:

1. The Director-General of GATT should approach the respective heads of the IMF and IBRD to explore jointly ways to achieve greater coherence in global economic policy-making through strengthening the relationship of GATT with other international organizations responsible for monetary and financial matters and to report back with recommendations within 12 months.

- The report shall take into account the views, issues and proposals which are being raised in the context of the Negotiating Group. The report could make specific suggestions for implementation of certain concrete steps as interim measures prior to the end of the Uruguay Round, including steps to strengthen existing cooperation between the GATT and these other institutions.
- An interim report shall be submitted by 1 July 1989.
- Some indication would be provided of the budgetary implications of any proposals submitted.

2. The Negotiating Group on Functioning of the GATT System shall continue its work for the achievement of the negotiating objective, including the examination of the other substantive questions which have been raised to date.



ANNEX I

OUTLINE FORMAT FOR COUNTRY REPORTS

The following agreed outline format for country reports shall allow the implementation of the Trade Policy Review Mechanism on a provisional basis as of 1 January 1989. It should help contracting parties to provide the country reports for the first reviews under the newly established mechanism. In conformity with paragraph 11 of the above Decision by the CONTRACTING PARTIES, the following agreed outline format for country reports shall be reviewed, and if necessary modified, in the light of the experience gained from the operation of these arrangements.

It is recognized that it may be burdensome for least-developed countries to adhere fully to the following outline format. A simplified reporting format for reviews of trade policies and practices of the least-developed contracting parties should therefore be considered.

A. Trade Policy Structure and Objectives

This section should aim to provide a general picture of the current structure and objectives of trade policy, including:

- Objectives of trade policies in relation to overall national economic policy;
- General description of system for control of imports and exports and for import and export promotion. This should include a description of the use and the rationale for the main trade policy instruments;
- Sectoral features of trade policy instruments in force. Where particular sectoral trade policies have evolved, an explanation should be provided of their economic goals and significance. The date of introduction of non-tariff measures applying to imports or exports in these sectors should be noted, as well as any changes in tariffs and other charges;
- Domestic laws and regulations providing basis for application of trade measures;
- Existing and new bilateral, regional or preferential trading agreements, their scope, duration and expected effects;
- Relevant domestic policies and practices impacting on trade;
- Programmes in existence or about to be introduced for trade liberalization overall or in any sectors;

- Summary description of responsibilities and functions of any regulatory bodies concerned in the administration of trade policies, including any bodies or domestic surveillance mechanisms which assess the economic effects of trade measures or of industry requests for government assistance; state trading institutions, monopolies for imports and exports, restrictive business practices including internal distribution systems;
- Comprehensive statistical information.

B. Major external factors affecting trade policies

This section might include, inter alia, the following elements:

- Terms of trade and commodity price developments since the last review;
- Recent developments in imports and exports, overall balance-of-payments situation, reserves and debt position, exchange rate and interest rate developments, etc., and underlying reasons;
- Problems of market access facing exports; barriers introduced by trading partners in the period since the last review, including VERs and OMAs.

C. Other information relevant to the objectives of the Trade Policy Review Mechanism

ANNEX II

SPECIAL COUNCIL-STRATEGIC REVIEW

Enhanced surveillance requires a more general overall assessment of developments which are having an impact on the multilateral trading system. The Director-General of GATT should produce on an annual basis a report which would set out major GATT activities and highlight significant policy issues affecting the trading system. This report should reflect his concerns and include any suggestions he may wish to have considered by contracting parties.

The report could be discussed at special sessions of the GATT Council. The report could also be used as a background document for any discussions among Ministers in the GATT.