

GENERAL AGREEMENT ON TARIFFS AND TRADE

CONFIDENTIAL

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Consultative Group of Eighteen
Sixth Meeting
20-21 February 1978

NOTE ON THE SIXTH MEETING OF THE CONSULTATIVE
GROUP OF EIGHTEEN: 20-21 FEBRUARY 1978

Introduction

1. The Consultative Group of Eighteen held its sixth meeting on 20-21 February 1978. An annotated provisional agenda was circulated in document CG.18/W/21 and a list of participants in document CG.18/INF/6.

Agenda

2. The Group adopted the following agenda:
- (1) Recent developments in trade policies and international trade
 - (2) Trade measures taken for balance-of-payments purposes
 - (3) The international trading system and the rôle of GATT
 - (4) Definitive application of the General Agreement
 - (5) Other business

Recent developments in trade policies and international trade

3. Under this general item the Group discussed two subjects:
- (a) GATT and current protectionist tendencies;
 - (b) The GATT system to monitor trade restrictive measures and practices.

GATT and current protectionist tendencies

4. In his introductory statement the Chairman noted that although the world trade situation had not improved since the Group's last meeting it was not altogether out of hand largely because governments were trying their best to withstand the protectionist pressures to which they were being subjected. He referred to the

recent secretariat study entitled "Trade Liberalization, Protectionism and Interdependence" which attempts to analyze the fundamental reasons why investment has been persistently weak, adjustment slow and, as a consequence, protectionism gaining ground. The Chairman stated that one major point made in the study deserved to be stressed, namely the crucial importance of a firm and clear set of rules for world trade. The disregard and erosion of present GATT rules played a large part in fostering uncertainty in trade relations, in discouraging investment, and in fostering protectionism itself. For these reasons the updating and restoration of the authority of some of the rules had become as important a feature of the MTN as further trade liberalization. If GATT were strengthened and more fully used, it could help overcome the present confidence crisis.

5. In the ensuing discussion, some members reported on recent actions by their governments, outlined the domestic situation in which these actions had been taken and noted the limited options that often faced governments. The view was expressed that in spite of certain similarities there were many differences between the crisis of the 1930's and the present situation. The major economies were now recovering, protectionism was limited to a few sectors and the need for constructive international co-operation was recognized. Governments granted import relief in some cases so as not to lose control of and defuse a situation that could otherwise lead to a chain reaction of protective measures. On the whole they had been able to withstand very real political pressures. With an increase in business activity and effective international co-operation it should be possible to overcome the present crisis. Significant progress in the MTN was essential to demonstrate the will of the trading nations to co-operate in warding off protectionist pressures.

6. Members of the Group described the secretariat study on "Trade Liberalization, Protectionism and Interdependence" as useful and agreed that the updating and affirmation of the rules for international trade would foster business confidence which in turn would enhance investments and lessen protectionist pressures. Some members added that a mere reformulation of the rules was not enough; the final goal had to be a better observance of these rules.

7. Several members emphasized that protectionism was particularly widespread in the industrialized countries and was to a large extent directed against developing countries' exports. The secretariat study showed that, of the total increase in imports of manufactures during 1955-1973, only 11 per cent resulted from the expansion of trade flows from developing to industrialized countries. It was disappointing to see that those developing countries that had industrialized in sectors in which they had a comparative advantage, such as the textiles sector, were now facing

protective actions in the developed countries. There were two alternative responses to changes in comparative advantage: structural adjustment resulting in greater benefits from the international division of labour or protectionism leading to economic stagnation. Protection was only justified when there were sudden, unforeseen changes in competitive relationships. Basic and predictable changes should not, and in the long run could not, be prevented through protectionism. One member, stressing that unemployment was mainly caused by the lack of labour mobility, said that the developing countries had genuine unemployment because the threat of starvation was often the main barrier to labour mobility. In the developed countries, by contrast, no genuine unemployment problem existed because the jobless did not face such problems.

8. Several members of the Group commented on the impact of monetary disturbances on trade relations. The Tokyo Declaration, it was noted, recognized that the efforts in the trade field required parallel efforts to maintain orderly monetary conditions. If this link were lost sight of the efforts to contain protectionism and to liberalize trade were going to be in vain. One member felt that the recent decline in the value of the United States dollar had to be taken into account in evaluating concessions offered in the MTN. Another member felt that the need for monetary stability should not be over-emphasized: exchange rate modifications that reflected basic economic changes were part of the international adjustment process and should be allowed to take place.

9. In concluding the discussion the Chairman pointed out that decades of continuous, euphoric growth had hidden basic structural weaknesses. It would take time to overcome the maladjustments that had accumulated and governments would in the meantime face serious policy problems since the necessary changes now had to be made in a period of recession. One message clearly emerged from the Group's discussion: protectionist measures did not reduce but created unemployment and were therefore not an effective method for dealing with the adjustment problem. This message had to be made publicly heard. The Chairman suggested that it would be desirable if the Group discussed at its next meeting the problem of protectionism not in a general, abstract fashion but with reference to concrete policy issues emerging in specific sectors. In this context, he recalled that one of the mandates of the Group was to forestall sudden disturbances that could represent a threat to the trading system. The Group's aim should therefore be to anticipate problems, to examine the options available to governments and not merely to react to those that had already arisen. In reaction to the Chairman's suggestion several members proposed product ranges on which the Group might concentrate; other members however, felt that product oriented discussions were not well suited to the character of the Group. The Chairman concluded by suggesting that the issues and sectors to be discussed by the Group at its next meeting be determined in close consultation with members of the Group.

The GATT system to monitor trade restrictive measures and practices

10. The Chairman recalled that the Group, at its last meeting, had an initial exchange of views on the suggestion for the establishment of a system to monitor developments in international trade policies. Informal consultations had indicated broad support for this idea and the secretariat, on its own responsibility, was now preparing a first survey of developments in commercial policy covering both restrictive and liberalizing actions taken during the period July-December 1977 both by contracting parties and non-contracting parties. The survey was based on information available in the form of GATT documents and various published sources, such as documentation issued by international organizations and official journals. Obviously the information varied from country to country and was not exhaustive. The survey would, in particular, benefit from additional information on planned economy countries. It was the intention to distribute the first survey as soon as possible.

11. All members of the Group who spoke on the agenda item favoured the establishment of the proposed system. Some members made comments on the distribution and content of the survey. It was suggested that the survey might first be examined by the Group before it was made available to all contracting parties. This would ensure that the initiative was well received. Another member however saw practical difficulties in discussing a survey concerning all contracting parties in a body with limited membership. Several members considered it imperative that the survey present a balanced picture. Balance would however be difficult to achieve since some countries had more transparent procedures for economic policy formulation than others. In the view of another member, difficulties in achieving a balanced picture would arise from the fact that there was no way to measure objectively the restrictiveness of import controls. Moreover, a study covering the measures taken during a six-month period tended to divert attention away from the pre-existing policies and hence from the basic and more long-term problems. One member felt that the proposed survey should not overcharge the secretariat at a time when staff resources had to be devoted to the MTN.

12. In response to the various comments the Chairman said that he saw problems in the suggestion that the Group examine the survey before it was circulated to all contracting parties. If the Group undertook such an examination it would inevitably turn into a drafting or even negotiating committee and would engage in an activity far removed from its original purpose. He said that he was quite willing to distribute the survey to the Group if members insisted but he recommended against this because the risks involved were greater than the potential advantages. Although all efforts were being made to make the survey as complete as possible the presentation

of a perfectly balanced picture was impossible since the survey could cover only a short period and information on all measures taken during that period was not available. Despite these inevitable imperfections the survey could serve its basic purpose well, namely to enable contracting parties to assess the basic trends in world economic relations and to forestall uncontrollable situations. The survey was based on information available in the secretariat and required no additional staff.

Trade measures taken for balance-of-payments purposes

13. As background material for this agenda item the Group had before it: a note by the Balance-of-Payments Committee reviewing the work of the Committee over the period 1970-1974 (document L/4200); a background paper for discussion of GATT rules and procedures governing trade measures for balance-of-payments purposes (document CG.18/W/5); a list prepared by the secretariat of issues raised at the second meeting of the Group (document CG.18/W/7); a memorandum by the member for Argentina concerning balance-of-payments aspects to be considered within the framework of GATT (document CG.18/W/8); and a revised memorandum by the member for the United States on GATT rules and procedures governing trade measures for balance-of-payments purposes (document CG.18/W/9/Rev.1).

14. At the suggestion of the Chairman the Group discussed in which of the various available fora - the Group of Eighteen, the MTN Group "Framework" and the Balance-of-Payments Committee - the question of the rules and procedures for trade measures taken for balance-of-payments purposes should be further pursued. Several members said that, while the Group might continue its debate in general terms, a detailed discussion should be taken up in the Group "Framework". One member felt that the matter should in no case be taken up in the Committee on Balance-of-Payments Restrictions. The Committee could not review and question its own criteria and procedures and at the same time perform its routine tasks properly.

15. The Group then turned to the procedures for balance-of-payments consultations of developing countries. Some members described the consultations as they were presently conducted as a painful routine which had an inquisitorial character and was biased against the developing countries. In a world of floating exchange rates industrialized countries had little reason to resort to trade measures to cope with payments deficits, but developing countries with their basic structural problems continued to be forced to impose balance-of-payments restrictions. The emergency actions of the industrialized countries now related mainly to particular products and escaped multilateral surveillance under GATT while the more general measures the developing countries had to take entailed the close scrutiny of the Balance-of-Payments Committee. This imbalance was exacerbated by the fact that the developing countries were in a minority in the Balance-of-Payments Committee. In this context it was pointed out by the Chairman that there were no policy or procedural restraints on developing country participation in the Committee.

16. Several remedies were suggested by the same members to solve these problems. First, the Balance-of-Payments Committee should either have a more balanced membership or it should reach its conclusions on the basis of objective criteria and act as a committee of experts representing the contracting parties as a whole. One spokesman added that the present situation in which a majority of developed country representatives reached conclusions on the basis of instructions from their capitals was unacceptable. Second, the scope of the consultations should be broadened to cover not only the reasons, effects and justification of the consulting country's measures but also the restrictive actions of other countries that may have brought about the consulting country's payments difficulties. The basic objective of the consultations should not merely be to scrutinize the actions taken by the consulting country but to bring about a concerted effort to help the consulting country to overcome its difficulties. Third, the consultation procedures for developing countries should as a rule be simplified and the decision on whether full or simplified consultations were to be held should be made on the basis of objective criteria.

17. One member, noting that the industrialized countries could not be expected to abandon completely their right to impose balance-of-payments restrictions, stressed that there had to be a proper balance between the rights and obligations of the industrialized countries and those of the developing countries. The aim of the Tokyo Round could not be to impose more and more obligations on the former and to carve out more and more exceptions for the latter. Other members felt that their proposals merely followed the principle that equal treatment of unequals was inequitable. That the balance-of-payments problems of the developing countries differed from those of the industrialized countries had already been recognized in Articles XII and XVIII:B of the General Agreement.

18. Some members raised the question of a symmetry between deficit and surplus countries' obligations. They expressed the view that, although the question was of monetary nature, it had to be taken up in the framework of GATT. As recent instances showed, the pressures against persistent surplus countries were exercised mainly bilaterally. A multilateralization of the surveillance of surplus countries' policies was called for.

19. The Chairman said in concluding the discussion that there had not been an evolution of thought on balance-of-payments oriented trade measures since the so-called sophisticated measures emerged in the early 1960's. Now as then those who felt that surcharges and import deposits imposed for balance-of-payments reasons should be legalized in recognition of realities were opposed by those who thought that a legalization would stimulate a more extensive use of such measures. The discussion within the Group had, he felt, so far done little to promote a convergence of views on the various issues surrounding balance-of-payments adjustment measures, in particular on the scope of the balance-of-payments consultations of developing countries. It was now necessary for the Group to reflect seriously on these issues and to engage in a true dialogue.

The international trading system and the rôle of GATT

20. Under this general item the Group continued its discussion on dispute settlement. As background material the Group had before it a note by the secretariat listing specific issues in the area of dispute settlement (CG.18/W/15).

21. At the suggestion of the Chairman the Group discussed in which forum and in which way the issue of dispute settlement might appropriately be pursued. One member felt that a distinction had to be made between the present procedures, which could usefully be discussed in the Council, and new procedures, which should be negotiated in the MTN. Reference was made to the fact that, while the Group "Framework" was discussing dispute settlement, various codes with dispute-settlement procedures were taking shape in other negotiating groups. The view was expressed that there was a need for a harmonious, comprehensive approach, and that unnecessary divergences between the solutions found in the Group "Framework" and in the various codes should therefore be avoided. However, it was also stressed that the various codes addressed themselves to different problems and that it would be difficult to separate the negotiations on the substantive obligations from those on the procedures designed to ensure the observance of these obligations. One member expressed the view that it would be preferable to attempt to harmonize the future dispute settlement procedures once the negotiations on the codes were completed. Another member doubted the wisdom of such an approach; he felt that the goal of harmonization would be better served if the discussion on the general problem of dispute settlement was carried on while the codes were being negotiated.

22. The Chairman concluded the discussion by noting that there were at present several obstacles to a fruitful discussion on dispute settlement in this Group, among them the fact that governments did not wish to tie their hands in the present world economic situation and that the negotiations on several codes had reached a critical stage. He therefore suggested that the Group return to the issue once informal consultations with members had shown that this would be useful.

Definitive application of the General Agreement

23. The Group had before it a memorandum on this agenda item circulated at the request of the European Communities as document CG.18/W/20.

24. The view was expressed that the MTN presented a good opportunity to deal with the legislation covered by the Protocol of Provisional Application. A definitive application of GATT would bring about equality of rights and

obligations among contracting parties it being understood that there would continue to be special rules for developing countries. It was proposed that the Council examine the matter and that a complete inventory of mandatory legislation covered by the Protocol of Provisional Application and accession protocols be established on the basis of notifications by governments. One member said that such an inventory would only be useful if it covered all measures inconsistent with the General Agreement, be they imposed in violation of the contracting parties' obligations or in conformity with them. In response it was stated that the question of mandatory legislation exempted by the Protocol of Provisional Application was distinct from the problem of other inconsistencies with GATT rules although both issues could of course be discussed. One member cautioned that GATT's definitive application might lead to many requests for waivers or amendments and have other consequences that needed to be taken into account.

25. The Chairman concluded the discussion by suggesting that the matter be pursued in consultations among the contracting parties concerned.

Date of the next meeting

26. It was agreed that the Group would hold its next meeting on 8 and 9 June, beginning at 10 a.m. on the 8th.