

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Consultative Group of Eighteen

Seventh Meeting

8-9 June 1978

NOTE ON THE SEVENTH MEETING OF THE CONSULTATIVE
GROUP OF EIGHTEEN: 8-9 JUNE 1978

Introduction

1. The Consultative Group of Eighteen held its seventh meeting on 8-9 June 1978. An annotated provisional agenda was circulated in document CG.18/W/22 and a list of participants in document CG.18/INF/7.

Agenda

2. The Group adopted the following agenda:

- (1) Recent developments in trade policies and international trade
- (2) The GATT after the Tokyo Round
- (3) Other business

Recent developments in trade policies and international trade

3. Under this agenda item the Group discussed two subjects:

- (a) GATT and current protectionist tendencies
- (b) GATT Survey of Developments in Commercial Policy

GATT and current protectionist tendencies

4. In order to help the Group focus its discussion on this item, the secretariat had prepared a paper entitled "How Protectionism Propagates Itself" (CG.18/W/23). In introducing the agenda item, the Chairman briefly recalled the main points made in this paper and suggested three questions to which the Group might address itself, namely: Does protectionism tend to propagate itself and, if so, through which mechanisms and influences? Which methods of coping with protectionism have governments found particularly effective? In what ways can governments help each other in coping with protectionism?

5. Several members said that they were in basic agreement with the analysis presented in the secretariat paper but added that the most relevant question was not how protectionism spreads but rather how this serious problem arises. One

member pointed out that the idea of an international open market was being increasingly questioned. This in turn seemed to be related to the fear of future competitors, the lack of confidence in the governments' ability to handle economic problems and the feeling that social considerations should be incorporated into the trade rules. The Group would do well if it studied the reasons for this basic change in attitude. Another member said that it was too simplistic to explain the protectionist trends by the present recession. Cyclical factors were not the cause of restrictions in certain sectors that had now been applied for decades. In the last analysis wrong investment decisions taken in the past were at the root of today's protectionism and the wrong investment decisions of today were going to cause protectionist moves in the future. He was therefore concerned that some high cost steel producers in industrialized countries were now expanding capacity in full knowledge of the competitive edge possessed by steel producers in some developing countries. This foreshadowed an intensification of protectionism in the steel sector. A member said that one cause of chronic protectionism had to be seen in the fact that protective measures often led to close interaction between public authorities and the affected industry. In this context there frequently arose the danger that the industry stopped making adjustment efforts because it considered its problems solved, that temporary protective measures became permanent, and that the market was then replaced by series of government actions under which profits went to private individuals and losses were borne by the public. He also saw in the emergence of industries producing exclusively for export - a phenomenon that did not exist before or immediately after the Second World War - a critical factor in present protectionist tendencies.

6. On the mechanisms and influences stimulating a propagation of protectionism that were analyzed in the secretariat paper the following comments were made. It was true that each protective action created a precedent for the future but the practical experience with an action taken in the past could create counter-forces that mitigated the danger of a further spread. The experience in the textiles sector, for instance, tended to make some governments very reluctant to extend the arrangements in the textiles area to footwear. Moreover, a restriction often prevented protectionist forces from gaining momentum and therefore served the cause of free trade. Some members of the Group expressed scepticism as to this argument noting that it had been invoked to defend protective actions in the area of textiles, was now used to justify restrictive steel policies and could lead to a progressive decline of free trade sector by sector.

7. There was general agreement with the view expressed in the secretariat paper that protection against imports from one country could easily spread to imports from other countries as the sources of the troublesome imports shifted. However, it was argued that such discrimination might be justified if it was directed against a country that itself was highly protective. Moreover, protective action directed against the most successful exporter would help other countries enter the market. The danger of one exporter attaining monopolistic market power was thereby being forestalled. In this context one member expressed the view that a good deal of discriminatory protection could be avoided if certain exporting countries realized that governments could not let basic industries, and the wealth and employment they represented, be eliminated completely by import competition although they could accept some restructuring.

8. Several members of the Group believed that new techniques of protectionism had evolved that needed careful study. In this context trigger price mechanisms, government sponsored cartels, export restraint agreements, state trading, government organization of markets and other methods of direct government involvement were mentioned. Due to the growing and increasingly complex involvement of governments in the economy, the opening of markets through tariff reductions could no longer be expected to bring about structural adjustments in all cases. International agreements on market access might therefore increasingly have to be supplemented by international agreements on capacity adjustments.

9. Various views were expressed on possible solutions to the problem of protectionism. Some members of the Group thought that expansionary fiscal and monetary policies would help reduce protectionist pressures. Others suggested that if consumers were kept better informed this would help offset pressure originating in industry and would help strengthen the hands of democratic governments. Others, again, thought that a greater involvement of labour representatives in trade policy decision-making could help forestall calls for protection. It was also suggested that a more active GATT secretariat could help prevent protectionist schemes from being adopted outside the GATT framework.

10. In concluding the discussion the Chairman remarked that in the field of protection as in other fields the diagnosis was easier than the therapy. He added that the GATT secretariat could assume a more active rôle only if this was supported by the GATT membership. Governments had created many international organizations with partly overlapping functions so as to be able to choose among them according to circumstances. An organization could become active only to the extent that it was the chosen forum.

11. The Chairman then asked Mr. Patterson, Deputy Director-General, Trade Policy, to report on the trade policy discussions at the Mexico City meeting of the IMF Interim Committee and the joint IMF-World Bank Development Committee. Mr. Patterson said that while monetary matters had been the main focus of attention of finance ministers at these meetings they had also been concerned with protectionist moves around the world and had expressed the belief that an early and successful conclusion of the MTN would contribute importantly to a sustained improvement of the world economy. When speaking in the Interim Committee as a GATT secretariat representative he had pointed out that, in the present final phase of the Tokyo Round, decisions of such political importance were needed that they might well reach finance ministers and require a high and far-sighted order of attention. He had also said that, even with the best of luck there would be many problems of trade policy calling for attention in the years ahead, and that it was most important that governments commit themselves to certain procedures and principles and to formulate in a binding way in their domestic laws and regulations their long-term directions and intentions so that subsequent trade policy could build, and reaffirm, and strengthen the international economic order. He had also emphasized that the unsettled state of the foreign exchange market had an adverse impact on the trade negotiations. Mr. Patterson further reported that the final communiqué of the finance ministers had stressed the urgent need for efforts to stop the drift towards protectionism and the importance of a successful completion of the MTN.

GATT Survey of Developments in Commercial Policy

12. Members of the Group commented on the first issue of the GATT Survey of Developments in Commercial Policy covering action and decisions taken in various countries during July-December 1977. Most members considered the Survey a useful instrument for promoting transparency in commercial policies, recommended its continuation and commended the secretariat for its efforts but at the same time made suggestions for improvements. Several members said that the Survey was not a true reflection of the situation in international commercial policy. It did not list measures taken in the past but only new measures and therefore contained no reference to long standing protectionist policies with the consequence that the agricultural sector was scarcely covered. It also made no qualitative distinctions: important and unimportant cases, permanent and temporary measures as well as purely protective and legitimately defensive actions were all given the same prominence. An effort should be made to distinguish in the listings as to the motive and objective of the actions and decisions taken. Some members cautioned against the inclusion of proposed measures since they might not enter into force.

13. Other members of the Group criticized the Survey as being partly based on press reports and, presumably for this reason, containing errors. One member complained that more than half of the entries on his country were in one way or the other incorrect. It was suggested that the Survey be based primarily on official publications and that press reports, if used, be verified with the help of such publications.

14. Several members found that the country coverage in the Survey was unbalanced and attributed this to the fact that, notwithstanding Article X of the General Agreement, contracting parties pursued different publication policies. They recommended that the secretariat prepare a study on how the contracting parties inform the public of their trade policy decisions. This study might list the official sources of trade policy information available to the secretariat in the preparation of the Survey. One member suggested that the Survey contain indices cataloguing the decisions and actions according to classes of products, Articles of the General Agreement or type of non-tariff measure. This would alert the reader to changes in sectors, in the invocation of GATT Articles and protectionist techniques. It was further suggested that the Survey's distribution remain restricted. Some members of the Group stated that many of the suggestions for improvements could either not be realized due to the limitations inherent in any effort to survey trade policies or would require the presentation of an indigestible bulk of information.

15. The Chairman thanked the members of the Group for their constructive criticism. He asked the members who had detected errors to notify them to the secretariat. A corrigendum would then be included in the next issue. He agreed that the sources of information were the crux of the problem. The secretariat relied in the first instance on notifications to the GATT, then on official publications and finally on press reports. The greater the notification efforts of the contracting parties, the smaller were the chances that the Survey contained errors due to erroneous press reports. The Chairman added that a Survey limited to recent developments inevitably created an unbalanced picture but this could not be remedied. The secretariat would however carefully consider the comments on the use of sources, the layout of the Survey and the presentation of the information.

The GATT after the Tokyo Round

16. In introducing this agenda item, the Chairman said that at the end of the Tokyo Round the CONTRACTING PARTIES would need to make an assessment of the major problems likely to arise in international trade relations in the 1980's. An appropriate occasion to give some guidance on GATT's perceptions of future trade relations would be the next session of the CONTRACTING PARTIES in November. Such an initiative required preparation and it was therefore not too early to have a first exchange of views on it.

The secretariat had prepared a brief paper entitled "GATT After the Tokyo Round" (document CG.18/W/24) in order to help the Group focus its discussion. This paper was not an effort to catalogue all the problems that may confront the international trading system in 1980's; it did however list three questions on which it might be particularly necessary to focus attention. The first was: How can trade liberalization be maintained and pursued in the context of sluggish economic growth, in the face of monetary uncertainty, and taking into account the need for adjustment or restructuring? The second question was: How can the operation of the rules of international trade be maintained and strengthened? The General Agreement's basic purpose was to create an order that permits enterprises to predict governmental interventions in the flow of goods between countries but it was hampered in fulfilling this function by the increasing tendency of governments to disregard, or take lightly, their obligations under existing trade rules. The Chairman added that even the best-drafted and best-applied rules and dispute settlement procedures would not provide all the answers to the problems which inevitably confronted the international trading community from time to time. To be able to meet also unforeseen difficulties the trading nations had to have recourse to concertation or management. If the GATT failed to provide itself with appropriate mechanisms for the management of trade problems it could easily become a relic of the past unable to respond to present needs. This led to the third question listed in the secretariat paper: How can the concertation or management of trade relations be improved?

17. The Chairman concluded his introductory remarks by suggesting that the Group might discuss at this meeting whether these questions were the right questions to ask. At the next meeting in the autumn the Group might attempt to arrive at a consensus on the answers that should be given to them. Once this was done, the Group might inform the CONTRACTING PARTIES of the results of its discussion.

18. Most of the members who spoke on this agenda item agreed that the questions raised in the secretariat paper were among the right questions to ask and they expressed their appreciation for the Chairman's timely initiative. Some members pointed out that it was difficult to foresee the tasks of GATT after the Tokyo Round without knowing what the results of the Tokyo Round were. The only task that could so far be discerned with certainty was the need to implement promptly the results of the Tokyo Round.

19. Several members of the Group commented on the prospects for further trade liberalization. It was pointed out that non-tariff barriers to trade were likely to be the central problem ahead. If this turned out to be the case, such barriers might be taken up in negotiations subject by

subject in a self-balancing manner rather than simultaneously in a new comprehensive round. Issues that had received insufficient attention in the Tokyo Round, such as agriculture, should be taken up immediately after the Round. Several members expressed the view that the past practice of periodic comprehensive negotiations should be replaced by a process of permanent negotiation. They suggested that all governments obtain the legislative mandate necessary to enable them to participate in such a process.

20. Reference was made also to the possibility of trade negotiations among developing countries. The Chairman reacted to this by saying that his hope had been that such negotiations would take place at the same time as the Tokyo Round. This had turned out to be impossible but the idea of starting a major round of trade negotiations among developing countries after the Tokyo Round should be given very serious consideration. He recalled that after the Kennedy Round a Committee on Trade Negotiations among Developing Countries had been created which had achieved some modest results on which further progress could be built.

21. One member said that, while his government had not developed firm views on future trade liberalization and the rôle of GATT, there were some specific aspects on which it had already taken decisions. Thus, it would favour a continuation of the GATT Special Assistance Unit originally established for the Tokyo Round. The complexity of the agreements that were being negotiated warranted a continuation of the Special Assistance Unit beyond the Tokyo Round. Other members also expressed support for the Unit. The Chairman welcomed these statements. He said that it had been his intention to propose a continuation and transformation of the Unit to the GATT Budget Committee.

22. The member further said that his government was also examining the relationship between international trade and fair labour standards. This matter was already treated in the GATT with respect to convict labour. The present interests of his government were concerned with internationally accepted standards in the area of forced labour, child labour and worker exposure to toxic substances. He recognized that it was difficult to segregate unfair labour standards from prevailing socio-economic conditions and he emphasized that his government was not proposing to penalize poverty. Other members added that also in their countries fair labour standards were given much attention. Hidden behind the proposals to enforce such standards through import restrictions was often pure protectionism. They expressed serious doubts as to the feasibility and appropriateness of defining and implementing fair labour standards in the framework of GATT rather than the International Labour Organisation.

23. The Group exchanged views on the relative merits of a rule-oriented and a management-oriented approach to international trade relations. One member said that rules protected the smaller members of the trading community and made governmental interventions in the flow of goods across borders predictable; inherent in the management approach was the danger of unpredictable ad hoc solutions imposed by the stronger trading partners on the weaker ones. He added that the present world economic situation was characterized by such instability and diversity that greater reliance on management procedures was inevitable. However rule application and management procedures had to be clearly separated. Otherwise the trading community ran the risk that all aspects of commercial relations were dominated by considerations of power and short-term interests. Another member said that GATT was based on a few common sense rules and principles of fairness. Many of them had evolved from practices and were, though unwritten, of precise content. The GATT exerted pressure on governments prudently, pragmatically and without over-extending itself. The recipe for GATT's relative success had been one element of law, two elements of common sense and a good dose of fairness. If the relative weight of these elements were substantially altered the result might very well become indigestible for governments.

24. It was also said in this context that the times were gone in which trade negotiations led to new rules or concessions that could then be automatically implemented by specialists. Given the rapidly changing economic environment trade matters required daily attention by officials that were familiar not only with the instruments of commercial policy but also with the economic context in which they were applied. In this changed environment the Consultative Group of Eighteen had acquired new importance and an extension of its functions deserved exploration.

25. Several members said that there was a need for more flexible rule adjustment procedures both under GATT and the codes negotiated under the auspices of GATT. In many instances the non-observance of GATT rules was not due to lack of willingness to co-operate but rather due to the fact that the rules were no longer realistic and appropriate in the present circumstances. For the sake of preserving the integrity of the General Agreement and the supplementary codes, flexible rule amendment procedures should be agreed. One member said that flexible amendment procedures were necessary but not sufficient. Governments also needed to have a broad legislative mandate to renegotiate rules. Otherwise the rules remained frozen in changed circumstances despite flexible amendment procedures.

26. Several members commented on the future organizational structure of GATT. One member said that his country had at one time contemplated a new International Trade and Development Organization but had then dropped the idea. It was concluded that before a new organizational structure could usefully be set up the basic ground rules for international trade had to be

changed. He now hoped that the Tokyo Round would bring about such basic changes in the rules. Although it was difficult to predict the outcome of the Tokyo Round it could already be said now that the GATT would have to evolve from a small shop into a fully-fledged organization. GATT was now becoming interesting for the developing countries as it now appeared to be responding more and more to their special needs. One of the future challenges of GATT was to devise ways to avoid harmful discrimination by developed countries against developing countries while at the same time permitting them to take into account the individual characteristics of each developing country. He cautioned against attempts to bring all economic issues into GATT but suggested that there were a number of key trade issues that could not be left outside GATT. He mentioned restrictive business practices in this context.

27. Another member said that, once the Tokyo Round was completed, the Group of Eighteen might be in a position to ensure that trade problems were discussed in the broader economic context in which they arose and before they were becoming acute and to add thereby a new dimension to the GATT. However, it would probably not be possible to create in the trade sphere the type of institutions and procedures that existed in the monetary sphere. First of all, the constituency system used in the IMF bodies could not be transposed to the trade sphere. Further, it was always easier to attract ministers to monetary conferences than to trade meetings. A meaningful involvement of ministers in the work of GATT seemed difficult to achieve.

28. The Chairman concluded the discussion by stating that there appeared to be a consensus that the questions raised in document CC.18/W/24 were among the right questions to ask and he suggested that members prepare themselves for a discussion of these questions at the next meeting. He also noted a consensus in the Group that trade relations could no longer be based solely on abstract rules mechanically applied by specialists but had to be increasingly managed by generalists familiar with broader economic context in which trade relations were embedded. He shared the regret expressed by one member that it was difficult to involve ministers in multilateral trade relations. He attributed this to the fact that the government departments under whose jurisdiction trade matters fell differed from country to country, so that it was impossible to organize in the trade field a meeting of ministers with similar scopes of authority in their respective countries. In the monetary sphere this was easier as the functions of finance ministers in different countries were very similar.

Date of the next meeting

29. It was agreed that the Group would hold its next meeting on 12 and 13 October 1978 beginning at 10 a.m. on the 12th.