

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Consultative Group of Eighteen  
Thirteenth Meeting  
30-31 October 1980

## NOTE ON THE THIRTEENTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN, 30-31 OCTOBER 1980

1. The Consultative Group of Eighteen held its thirteenth meeting on 30 and 31 October 1980. An annotated provisional agenda was circulated in document CG.18/W/47 and a list of participants in CG.18/INF/13.
2. The agenda was as follows:
  - (i) The current economic situation and its implications for trade policies;
  - (ii) Structural adjustment and trade policy;
  - (iii) Future work of the Consultative Group of Eighteen.
3. In opening the meeting the Chairman stressed the importance he attached to the work of the Consultative Group of Eighteen as a permanent part of the GATT structure, and to the participation in its meetings of those responsible for policy formulation in their countries.

### Item 1. The current economic situation and its implications for trade policies

4. As a starting point for its discussion of this item the Group had before it GATT/1271, the summary first chapter of the 1979-80 GATT study on Prospects for International Trade. Inviting the views of members on the likely evolution of the economic and trade situation, the Chairman commented that prospects seemed unlikely to improve significantly so long as high inflation rates continued to prevent the adoption of expansionary policies.
5. Several members said that 1980 had been a very difficult year in trade terms, not merely because of unfavourable general conditions, such as the recession and high levels of inflation, but also because specific problems had arisen between major trading countries in a number of sensitive areas. Some of these problems had been dealt with but others, equally difficult, were still impending. It was nevertheless encouraging that on the whole the line had been held against intense protectionist pressures. An important function of debate in the Consultative Group of Eighteen would be to help those responsible for trade policy to resist such pressures within their own administrations.

6. The outlook for 1981 and perhaps subsequent years was also far from encouraging; unemployment in many countries would continue to rise and priority would have to be given to the containment of inflation, without which economic stability could not be achieved. Governments had to operate within social and political parameters as well as the economic parameters discussed in GATT/1271, and their trading partners should recognize these constraints, including the special difficulty of large scale adjustment at a time when mobility of labour was restricted by lack of alternative employment opportunities. On the other hand, despite these difficulties these members believed that their authorities would be able to continue to hold the line and even to make further progress in the direction of liberalization. One member said that his authorities hoped to be able to improve their GSP scheme, that they looked positively towards the forthcoming global negotiations and that their approach to the renegotiation of the Multifibre Arrangement would be as positive as economic circumstances would permit.

7. Other delegations referred to the special strains on small economies which are heavily dependent on foreign trade and to the danger of fragmentation of the trading system through the proliferation of special arrangements and regional groupings. It was important to increase public appreciation, in all countries, of the benefits of a fair and balanced international trading system, and to mobilize the commitment of governments to its support. It was also essential that if trade measures became unavoidable they should be as limited as possible in duration and in coverage and severely practical in their application. The objective must remain the maintenance of an open trading system - transparent, global in application and in conformity with the GATT.

8. Other members spoke of the cumulative effects on developing countries of a series of adverse phenomena. First, the increase in oil prices and in the prices of manufactured imports had produced severe payments problems which could only be satisfactorily resolved by a substantial increase in export earnings: one member reported that even a 30 per cent increase in exports in each of the past two years had not been sufficient to resolve his country's payments deficit. Secondly, attempts to expand their exports had been frustrated by protectionism and by the recession in major markets - and diversification of export production had fallen foul of new import restrictions. Third, the shortage of credit, which was related to the lack of a private banking sector in many developing countries, in addition to the inadequacy of export receipts, increased the difficulty of financing necessary adjustment.

9. It was pointed out that these tendencies would restrict the ability of developing countries to pursue liberal trade policies and would diminish their importance, which in recent years had been very significant, as growing markets for the exports of the industrialized world. The point was made that the impact of the exports of developing countries, in terms of the disruption of import markets, was often greatly exaggerated. The real

problems of the industrialized economies were more often of a structural kind. Because of their vulnerability developing countries, particularly the small open economies among them, were especially dependent on a stable framework of rules for international trade.

10. Several members referred to the problem of lack of adjustment and related protectionism in agriculture and regretted the tendency to ignore this problem in general discussions of trade policy. A related problem was an increase in "unfair competition" in the form of subsidized exports of agricultural products.

11. Several speakers also voiced concern over developments in the textiles sector, in which increasing restrictions on the exports of developing countries had deflected a growing proportion of this trade to developed countries.

12. Without attempting to summarize the discussion, the Chairman said that a number of common points had emerged. The discussion had been dominated by a general concern over the imbalances in the trading system. Acute tensions were evident in many sectors, and had resulted in large-scale recourse to the consultation and dispute settlement procedures of the GATT. In itself this could be seen as encouraging; governments were learning to make full and proper use of the GATT system. The system had its imperfections, but could contribute significantly to the resolution and defusing of conflicts. Amid the widespread concern over short-term trade prospects, this demonstration that it is possible to resolve difficulties by conciliation and agreement was of the greatest importance. This was why an unremitting effort to implement the results of the MTN effectively was essential - as was the effort to understand the difficulties of developing countries and to help those responsible for trade policy to withstand the inevitable pressures for protectionist action.

## Item 2. Structural adjustment and trade policy

13. The CONTRACTING PARTIES, in their Work Programme adopted at the end of the Multilateral Trade Negotiations, requested the Group to give advice on the modalities for carrying out further work in the area of structural adjustment and trade policy. This request was discussed by the Group at its last two meetings and at an informal meeting held on 23 September 1980. The secretariat had prepared for these Group meetings three background papers (CG.18/W/37, CG.18/W/41 and an informal paper dated 19 September 1980) and Ambassador Hill from Jamaica had submitted a proposal to establish a Committee on Structural Adjustment (CG.18/W/39). At the present meeting the Group continued its discussion, concentrating this time on the concept of structural adjustment, on the appropriate focus of future GATT work in this area, on the factors affecting the process of adjustment and on the institutional arrangements for further GATT work.

14. It was noted in the Group that the concept of structural adjustment was extremely wide. It could be used to refer to all changes in an economy, whatever their causes - be they domestic or external, policy or market developments - and whatever their effects - be they the dislocation of labour and capital or government interventions to prevent such dislocations. One view was that the GATT was not competent to deal with all causes and effects of structural adjustments. It had to focus from the beginning on those aspects of the problem that were related to its principal aims, namely the liberalization of trade within a contractual framework. For the purposes of further work in the GATT, structural adjustment should therefore be understood to mean the adjustment of established industries to competitive changes in international trade and this topic should be examined against the background of the rules of the General Agreement - in particular Articles XIX, XVI and Part IV - and the possible improvement of these rules.

15. Another view was that at this stage the adjustment process needed to be examined in its totality. Only after this had been done could it be determined which aspects of the process merited the GATT's attention. Further analyses might show that established lines of production rather than established industries were subjected to severe adjustment pressure. In the field of textiles, for instance, a large part of the structural changes during the past decades had consisted of shifts to new lines of production rather than new industries. Further analyses might also show that matters which were not covered in detail by the present GATT provisions deserved attention, such as export restrictions and charges, barriers to international trade in services, or trade performance conditions imposed on investors. None of these areas could a priori be excluded from consideration until an overall analysis of the adjustment process had been undertaken.

16. One member emphasized in this context, that as far as import policies were concerned, structural adjustment problems arose from trade liberalization, not protectionism. Moreover, structural adjustment had two aspects: it meant losing one job and obtaining another or abandoning one line of production and starting another. The negative and the positive aspects had to be seen together. For these reasons the examination could not be limited to protectionist measures and specific problem sectors. The adjustment process as a whole needed to be analyzed. The member also cautioned that, in an examination of adjustment problems in the light of the GATT rules, the complex interrelationships among these rules would need to be taken into account. Thus emergency action under Article XIX could sometimes be avoided through adjustment assistance to a particular industry, but such assistance could raise problems under the subsidy provisions of Article XVI and give rise to countervailing duties in accordance with Article VI. An analysis limited to particular GATT provisions would necessarily be incomplete.

17. Some members disputed the view that problems of structural adjustment were related to liberalization rather than protectionism. Protectionism in general tended to perpetuate the existence of inefficient production structures and this made the problems of adjustment more severe in the long term. The resort to protectionist measures reflected a failure of adjustment.

18. Several members stressed that the market was the most reliable and efficient mechanism for ensuring the continuous adaptation of an economy to new circumstances. The impressive adjustments that had taken place in the main economies in the past decades were brought about by private enterprises seeking the most profitable production methods and sites. It was the private sector, not the government, that had the primary responsibility for structural adjustment. Experience had clearly shown that, when governments did intervene in the adjustment process, they generally tried to slow it down for political reasons rather than to speed it up in response to economic considerations. These members concluded that the task of the GATT was therefore to ensure that governments did not create artificial obstacles to adjustment. Other members thought that governments could, and should, positively intervene in the adjustment process, in particular to make room for developing countries' exports, and that the GATT examination should therefore encompass not merely negative but also positive governmental measures. It was also remarked that, in an organization with as wide a membership as that of the GATT, a discussion on the relative efficiency of economic systems in ensuring prompt adjustments might not be appropriate.

19. Specific suggestions were made as to how further work in the GATT should proceed. One was that the secretariat might distribute a questionnaire on adjustment policies. On the basis of the replies discussions could be held, possibly country-by-country, with the aim of finding out which of the policies aimed at structural adjustments - such as social, sectoral, regional, and research policies - had proven to be practical or efficient. Another suggestion was to ask the secretariat to prepare a study which would examine in which sectors there were widespread and persistent trade restrictions. This would ensure an early focus on the sectors with the most serious unresolved adjustment problems. There were several members who emphasized in this context that structural adjustment was a problem affecting all countries and product categories. It should therefore not be approached as a North/South issue or one affecting industrial products only.

20. Following the Group's discussion the Chairman recalled that the immediate practical question before the Group was a procedural one: how should further GATT work on structural adjustment be carried out? He proposed that the Group recommend to the Council to set up a working party

with the following terms of reference: "to elaborate specific proposals for the future work of GATT relating to structural adjustment and trade policy, including the nature and objectives of such work, in the light of the report of the Consultative Group of Eighteen and of the views expressed in the Council, as well as the discussions in the Committee on Trade and Development". The Consultative Group of Eighteen also recommended the Council to invite the working party to report to the Council by March 1981. The Group agreed to this proposal on the understanding that the working party, in fulfilling its mandate would bear in mind the provisions of the GATT, including Part IV, and that the Council in its consideration of the working party report, would take account of the views expressed on the report by the Committee on Trade and Development and the Consultative Group of Eighteen. (The Council accepted the Group's recommendation at its meeting of 10 November 1980.)

### Item 3. Future work of the CG.18

21. At its July meeting the Group had requested that the secretariat should prepare short factual notes on four subjects: export restrictions and charges, restrictive business practices, international trade in services, and implementation of the MTN. At the same meeting one member gave notice that he would be raising the subject of rules of origin and that he expected to present a paper on dispute settlement.

22. It was agreed that the Group should briefly consider each of these subjects with a view to deciding whether and in what order of priority they should figure in its future work programme.

### Implementation of the MTN (CG.18/W/46)

23. In introducing this item, the Director-General said that the implementation of the MTN was in a different category from the other subjects in that it was already a major element in the work programme of the GATT. He proposed that this should remain on the agenda of the CG.18, and this was agreed.

24. One representative said that he feared that the operation of the MTN Codes and Agreements was not proceeding as had been intended. To maintain coherency in the system he would wish the reports on activities under the Codes to be considered by the GATT Council. This was also important from the point of view of the transparency needed to enable contracting parties which had not yet acceded to the Codes to appreciate fully the arguments for and against accession. The requirement of transparency also meant that full information should be made available to observers, the importance of whose rôle was not at present adequately recognized. The secretariat document failed to analyze the implications for the GATT system of the operation of the Codes, and to this extent was defective. Developing countries, although not fully satisfied with the results of the MTN, were looking for ways of associating themselves more fully with the work of the GATT, and more transparency would greatly facilitate this.

25. The Chairman commented that the best solution to the problem of transparency would be participation by the greatest possible number of contracting parties in the Codes. This must be the long-term objective. Meanwhile the secretariat would give as much information as possible to all countries interested in their operation; he would make this clear at the session of the CONTRACTING PARTIES.

Export restrictions and charges (CG.18/W/43)

26. Some members said that the secretariat paper was a useful basis for further work on an important problem about which too little information is available. This problem had ramifications going beyond policies affecting the export of raw materials and commodities; it was also relevant, for example, to adjustment, since governments could not be expected to acquiesce in the disappearance of a domestic industry without some assurance of continued supplies of the product in question from other sources. It should be recognized that discipline in this area, as in the area of import restrictions, was inseparable from an open trading system. It was not suggested that all export restrictions were unjustified, any more than all import restrictions, but the relationship between them was clear. These members therefore suggested that the subject should remain on the agenda of the CG.18 and that further information should be collected by the secretariat. It was also suggested that this subject was closely related to the question of restrictions on trade in services, and to restrictive business practices.

27. Other members said that they could agree to an examination of export restrictions and charges only in the context of the trading system as a whole, and in parallel with an examination of access to markets. It was not clear that export restrictions and charges at present posed any significant problem. It was pointed out that most countries imposed export restrictions of some kind, the majority of them probably justified. Some were imposed in fulfillment of international agreements and some were required by importing countries. These delegations therefore suggested that the subject should be taken up by the CG.18 when a genuine problem manifested itself, or when there was the prospect of more generalized negotiation, also involving access to markets.

28. Some members said that developing countries, given their payments and other problems, which increased their dependence on fiscal receipts, should be given special consideration in this matter. In their case a necessary counterpart of assurances of supply would be assurances of purchase in sectors where developing country products were threatened by the development of substitutes.

29. The Chairman concluded that this had been an illuminating discussion. He suggested that the best procedure might be for those members seeking more detailed consideration of this subject to present a paper setting out their understanding of the problems and the purpose, as seen by them, of further discussion in the CG.18 at this time. One member undertook to produce such a paper, possibly in time for consideration at the next meeting of the Group.

Trade in services (CG.18/W/45)

30. There was agreement in the Group that international trade in services, already very large, would continue to grow fast, accounting for an increasing proportion of total trade. In some advanced economies exports of services already accounted for 40 per cent and more of total exports. Opinions differed, however, as to the desirability of GATT's undertaking major work in this area. Some members thought it important for the GATT to study barriers to trade in services, and the impact of this trade on the world economy. It was pointed out that certain services are directly related to trade in goods and that others are essential to the development of an industrial infrastructure in developing countries. Some services, moreover, are closely linked to the operation of the General Agreement and of some of the MTN Codes. It was suggested that work in GATT should focus on these categories, and particularly on impediments to trade in them. International rules governing this trade would in due course be agreed, and the GATT should be involved in this process.

31. Other members doubted the wisdom of involvement in a field so wide and disparate, which is governed by objectives and criteria of great variety, many of them quite unrelated to free trade. It was suggested that completion of the studies currently under way in the OECD should be awaited before any decision were taken to extend the activity of GATT into this area. Another suggestion was that if it were agreed to leave this subject on the Group agenda, the secretariat might prepare a note identifying those services to which the existing rules of the GATT and the Codes are relevant.

32. The Chairman concluded that this had been a useful discussion of an important subject. It had to be considered, however, how this subject related to the work of GATT, though there was clearly some link between trade in goods and trade in services. He proposed that the Group should keep this subject on its agenda: meanwhile the secretariat would pursue its analysis, bearing particularly in mind, as guiding principles, those services which are linked with trade in goods, and how obstacles to trade in such services may affect commitments under the GATT and the Codes. This was agreed.

Restrictive business practices (CG.18/W/44)

33. The Chairman recalled that this subject had been studied in GATT in 1960, with no practical result. More recently an agreement, albeit of a non-binding nature, had been negotiated in UNCTAD. Should the GATT now resume work in this field?

34. Some members thought this undesirable so soon after the conclusion of an agreement in UNCTAD. Duplication would be counter-productive and might be dangerous. The relevance of the UNCTAD Code for the GATT might eventually be studied, but not at this stage when a Group of Experts had just been set up in UNCTAD and the text of the Code was under revision.

35. On the other hand it was noted that restrictive business practices had long been a legitimate concern of GATT and that their significance, given the growing importance of multinational companies, was increasing. The implications for GATT of the UNCTAD Code should be examined, as should the adequacy of existing GATT rules to meet the new challenges of modern trading methods.

36. The Chairman concluded that the Group should take note of the wish of some members to have the secretariat study the relevance of the UNCTAD Code to the GATT. The Group would revert to this subject at a future meeting. This was agreed.

#### Rules of origin

37. One member said that the proliferation of different systems of origin rules, even within the same country, posed increasing difficulties for traders. So far there had been little progress in the harmonization of different systems. The question needed careful study. He therefore proposed the establishment of a Working Party under the Council to review current practices in the matter of rules of origin, including those used in the context of preferential agreements, to study the trade effects of divergent practices and to consider the desirability of establishing guidelines or of harmonizing practices in this field. As part of this effort the secretariat might compile a list of the different systems currently in use and study their trade effects.

38. Other members opposed the establishment of a Working Party. It was pointed out that existing systems of origin rules had been examined and justified, where appropriate, under the relevant GATT provisions and that machinery existed in GATT for the resolution of any specific problems which might arise. However, the idea of a factual study by the secretariat was not opposed.

39. The Chairman proposed that as a first step the secretariat should prepare a factual note on rules of origin currently applied in international trade, as a basis for further discussion of the need for future work on this subject. This was agreed.

#### Dispute settlement

40. It was agreed to defer discussion of this subject until a later meeting.

#### Other business

41. Under "Other business" one member gave notice that he would submit, before the next meeting if possible, a paper on Investment Performance Requirements - the conditions attached by some governments to the acceptance of inward investment by foreign companies. These requirements could seriously distort trade and their proliferation could undermine the MTN results.

Date of next meeting

42. It was agreed that the next meeting of the Group should be in the week beginning 23 March, the precise dates to be fixed later in consultation with delegations.