

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Consultative Group of Eighteen
Sixteenth Meeting
14-16 October 1981

NOTE ON THE SIXTEENTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its sixteenth meeting on 14-16 October 1981. The annotated provisional agenda was circulated in CG.18/W/56 and the list of participants in CG.18/INF/16.
2. The agenda was as follows:
 1. Market situation and recent policy measures in the agricultural sector
 2. Agriculture in the GATT
 3. The current economic situation and its implications for trade policies
 4. Proposed ministerial meeting
3. It was agreed at the start of the meeting that Item 2 would be taken before Item 1 and that Items 3 and 4 would be discussed together. This note follows the order in which items were discussed.

Item 2: Agriculture in the GATT

4. Introducing document CG.18/W/59, which had been prepared by the secretariat at the request of the Group, the Chairman said that this paper was a review of the articles of the General Agreement and of the rules of the Codes, and of other activities of the GATT as they applied to agricultural trade. The paper revealed that the GATT did not apply in the same manner to trade in agricultural products as it did to industrial trade. The differences in treatment could be categorized as follows:

- (a) special references to agriculture, drafted in the General Agreement; for example, Article XI or Article XVI;
- (b) waivers or protocols of accession;
- (c) divergent interpretations of certain provisions of the General Agreement, like Article XXIV and most recently, Article XVI;

- (d) the problem of residual restrictions, more pronounced in trade in agricultural products than in industrial products;
- (e) certain trade instruments whose status vis-à-vis the GATT has not been determined.

The Chairman suggested that the paper might serve as a basis for reflection on the orderly development of the agricultural trading system, which was at present subject to serious tensions.

5. Members of the Group thanked the secretariat for the document, which in general they regarded as useful in itself and a valuable basis for continued discussion of agricultural trade and policies in the Group. Many specific comments were made on points which should be taken into account in any further work on the paper. Apart from these a number of major themes recurred throughout the discussion.

6. There was general acceptance of the thesis that, for a variety of reasons, the treatment of agricultural trade in the GATT had differed substantially from that of trade in industrial products. Most members held that agricultural trade had suffered from discrimination, in that it had benefitted from fewer tariff cuts, was encumbered by more non-tariff barriers and had given rise to more disputes, particularly over the last two or three years, than other areas of trade. Those countries which relied heavily on agricultural exports therefore had reason to believe that their interests had not been adequately protected in the GATT. One member, accepting that agricultural support policies, of whatever kind, were almost inevitably associated with social, employment, food security and other objectives, said that even these could not justify the use of Article XI as blanket cover for protective measures. The point was also made by another member, that the differential treatment of agriculture, even in the General Agreement itself, reflected fundamental differences in the rationale and objectives of agricultural and industrial policies and that any study of the reasons for the differentiation should consider whether the original reasons for special policies towards agriculture were still valid.

7. Failure by many contracting parties to observe existing GATT rules in the context of their agricultural policies was regarded by several members as one of the essential problems in this area. Article XI and Article XIX were mentioned as being among those most frequently contravened. The point was made by members representing small countries that only by the observance and enforcement of the law of GATT could the trading interests of such countries be protected. Several members suggested that closer observance of legal obligations would be promoted if these obligations could be delineated more precisely, particularly as regards the obligation to notify protective measures and subsidies. The inadequacy of information and the widespread failure to notify made effective surveillance extremely difficult. One member said that it would be particularly interesting to examine how far contracting parties had complied with the agreed format of the questionnaire on subsidies.

8. The problem of differing interpretations of certain GATT rules was referred to by a number of speakers, particularly in relation to Articles III, XVI, XX and XXIV. It was also suggested that lack of clarity as to the application of the provisions of Article XIX appeared to encourage a tendency to seek ad hoc solutions to problems attributed to agricultural imports.

9. Many members expressed concern about the prevalence of agricultural subsidies, both for production and export. One member suggested that since neither the General Agreement nor the Subsidies Code at present provided the necessary disciplines to deal with the problem of export subsidies in agriculture, high priority should be given in the immediate future to the provision of such disciplines. In the context of export subsidies another member referred to other aids to exporting which affect competitive conditions such as concessional financing and long-term supply arrangements.

10. The effects of waivers from normal GATT obligations, enjoyed by certain contracting parties in respect of agriculture, were mentioned by a number of speakers. It was noted that the oldest extant waiver under the GATT covered agricultural products. One member said that document CG.18/W/59 clearly demonstrated the need for greater clarity and precision in defining the parameters for the operation of waivers and for their being subjected to more critical and testing review. Another member recognized that his country's waiver on agriculture was the oldest waiver in the GATT, but pointed out that the policies it covered had received GATT sanction and were subject to regular review.

11. Several members representing developing countries alluded to the importance of agricultural exports for their economic development and suggested that agricultural protectionism in industrialized countries constrained this development and prevented efficient allocation of world resources. One representative, invited to address the Group, recalled his country's unavailing efforts under Article XXIII:2, during 1960/61 and later, to redress the situation whereby its agricultural exports faced some 600 import restrictions in about twenty industrialized countries. Other members drew attention to the decline in their commodity export earnings and one questioned whether sufficient efforts had been made by developed countries to assure increased export earnings and an increased share in world trade at just and equitable prices for developing countries, in conformity with the objectives of Article XXXVI:(2), (3) and (4). Another member said that for small countries like his own with little bargaining power the only defence against harmful policies of larger countries was use of the legal rights common to all GATT members. It was essential that large and small countries alike should respect the same rules.

12. Other members referred to the rôle of State-trading enterprises in agricultural trade. One suggested that the examination of Article XVII in the secretariat paper might be usefully supplemented to cover the extent to which State-trading enterprises were actually involved in and were able to control importation.

13. In discussion of the problem of dispute settlement, some members took the view that the large number of disputes and panel cases involving agricultural trade reflected the tensions to which the inadequate treatment of agriculture in GATT inevitably gave rise. However, another member, while conceding that agricultural exporters had cause for complaint, saw the number of panel cases as evidence of confidence in the GATT as an institution. Another member said that a large number of panel cases in the agricultural sector did not mean that there were fewer problems or breaches of GATT rules in the industrial sector. Indeed, the reverse might be true. At least agricultural problems were being brought before the GATT.

14. Several speakers said that the number of problems identified in CG.18/W/59 illustrated the need for a new framework in GATT for agriculture, and expressed the hope that discussion in the CG.18 would eventually lead to the creation of such a framework.

15. Several members said that discussion on agriculture should have the broadest possible scope and that in any further study the secretariat should take into account agricultural commodities and raw materials outside CCCN chapters 1-24, such as raw wool and cotton. The question of tariff escalation should also be considered. One member said that the MFA, for example, had affected tariffs and prices for cotton.

16. All members agreed that it would be useful to carry further the process of analysis started in CG.18/W/59. Several speakers said that the key question implied in the document was whether the GATT was sufficiently equipped to deal with agricultural problems and, if it were not, what should be done about the situation. Several believed that this was a matter of some urgency, given current tensions. One member felt that the document as it stood was at times unbalanced, and that further work should take more account of the political and economic factors underlying the differential treatment of agriculture. Any examination of agricultural trade should take into consideration not only the interests of exporters but also problems of food security and nutrition. The need to match production to global food needs was also referred to by another speaker. As to the manner in which the analysis might be carried further, one member proposed that a group of six or seven members of the CG.18 should work with the secretariat to summarize the main facts disclosed by the document and to identify areas for future work and negotiation which might be put before Ministers.

17. After discussion of this proposal it was agreed that the secretariat, in consultation with delegations and taking into account the comments made during this meeting would complete and improve the analysis contained in document CG.18/W/59. At its next meeting the CG.18 will continue the examination of the issues highlighted by this document, taking into account the underlying considerations behind the differential treatment of agriculture in the GATT and the need to develop further active co-operation in the agricultural sector. It was also agreed that members wishing to do so might present their views in writing for circulation by the secretariat for the next meeting of the CG.18.

Item 1: Market situation and recent policy measures in the agricultural sector

18. For this item the Group had before it three papers:

- (i) An analysis of the current economic situation in agriculture and agricultural trade, with particular reference to the trade of developing countries (CG.18/W/55/Rev.1).
- (ii) A note on recent agricultural policy measures taken by contracting parties, on the basis of available information (CG.18/W/57).
- (iii) A note on discussions regarding agricultural trade in other fora (CG.18/W/58).

19. Many speakers found the analysis of the current economic situation (CG.18/W/55/Rev.1) a useful and illuminating document. A number of suggestions were made for its expansion or improvement. One member found that although the statistical information provided was very valuable, the lack of any reference to policy made it difficult to draw any conclusions from the analysis. He hoped that a future version of the paper would give a synthesis of policies and market trends. Another member suggested that it would be useful, when analysing trends in trade and production over a period of years, to give an indication of consumption and population changes. It was also suggested that an attempt should be made to look forward, for example at the likely evolution of food needs over the next ten years. Another member asked that further work should provide information on major trade flows in specific products.

20. It was pointed out that the long-term trends in the share of developing countries in world agricultural trade, as revealed by the paper, were very disquieting. Whereas the share of developed countries in agricultural exports had increased from 59 to 64 per cent over the period studied, that of developing countries had fallen from 39 to 28 per cent. Short-term trends were even worse. Nevertheless, despite their relatively small share of agricultural trade, developing countries suffered the majority of trade restrictions. One member said that the choice of 1970 as the base year for most of the statistical series obscured the relative lack of success of developing countries. However, another member found the description of the position of developing countries in paragraphs 22-26 of the paper useful and illuminating.

21. In discussion of policy measures taken recently by contracting parties (CG.18/W/57), one member described recent developments in his government's agricultural policies. Despite the fact that in 1981 net farm incomes in his country would be the lowest since the thirties, due to very large harvests, high interest rates and cost inflation, the Administration would resist pressures for increased assistance. Support prices would be frozen or reduced and a reduction of 15 per cent in wheat acreage, without compensation, had been ordered. The cost of dairy support would be US\$750 million. The world food shortage was expected to get worse, and his government would intensify its efforts to assist developing countries to increase domestic food production.

22. It was suggested that CG.18/W/57 could be improved by the inclusion of a discussion on how commodity stabilization policies could be used and further developed. A contrast was drawn between the recent agreement to raise minimum prices for dairy products and repeated failures to do likewise with tropical products.

23. The third secretariat paper (CG.18/W/58) described discussions regarding agricultural trade in other fora. It was suggested that this added nothing to information already available from other sources and that further papers of this kind should not be produced.

24. The Director-General said that the secretariat would do its best to take due account of all suggestions made.

Items 3 and 4: The current economic situation and its implications for trade policies - Proposed ministerial meeting

25. As at its previous autumn meetings, the Group had before it, as a basis for the discussion on the current economic situation, the first chapter of GATT's annual report International Trade (GATT/1295). The Chairman, in his introductory remarks, stressed that this year's report did not depart from the main lines of previous reports. It attempted to bring together the main themes that had dominated the secretariat's thinking and the Group's discussions in recent years. Many of the problems described in this document had been referred to in the Group's previous discussion on the proposed ministerial meeting. The Chairman therefore suggested, and the Group agreed, that the discussion of this paper be combined with the further consideration of the proposal to convene a ministerial meeting.

26. The Chairman recalled that the Group had reached broad agreement in June that it would be appropriate for the CONTRACTING PARTIES to envisage convening a ministerial meeting during 1982. In informal meetings that had taken place after the Group's June meeting, the secretariat had been asked to prepare three papers: one on the various procedural arrangements which might be envisaged for a ministerial meeting, another on the background issues which would need to be borne in mind in considering whether or not a ministerial meeting in 1982 would be useful, and a third paper on the organization of previous ministerial meetings in GATT. These papers had been distributed as CG.18/W/60, 61 and 62.

27. The Chairman concluded by saying that the decision to convene a ministerial meeting could only be taken by the CONTRACTING PARTIES. This decision was not necessarily an easy one since it involved complex issues, both substantive and procedural. The task of the CONTRACTING PARTIES would be greatly facilitated if it were possible for the Group to send forward to them a clear statement of the reasons why the Group felt that a meeting at political level in 1982 would be valuable and some reasonable specific recommendation on the procedural questions involved.

28. All members who referred to the first chapter of this year's annual report International Trade commended the secretariat on the quality of the paper. Some said that it was crisp, to the point, and stimulating to read; it contributed to the GATT's high reputation among international organizations. One member added that some of the points on the difficulties in the trade system would have come out more clearly if more references had been made to agricultural trade. Another member thought there could have been greater emphasis on the problems of developing countries, in particular their structural problems, their poverty and difficulties associated with their population growth. A co-operative approach to North-South issues, which he favoured, presupposed a genuine understanding of the developing countries' problems.

29. As to the secretariat note on background issues for the proposed ministerial meeting (CG.18/W/61) some members said that it presented too gloomy a picture. Governments had, to an encouraging degree, been able to hold the line against protectionist pressures despite the worst recession in fifty years, and this should have been stressed. Other members thought that there were real stresses in the system to which the GATT should address itself, and be seen to address itself. The secretariat note states in paragraph 22 that a major element of uncertainty was the still unresolved safeguards issue. Some members disagreed with this. In their view the lack of a resolution of this issue probably had no impact on trade at all. Article XIX was still there and was still being applied. Other members however thought that the absence of an agreement on safeguards eroded the credibility of GATT. One member said that an interim agreement on safeguards, valid until a final resolution of this issue by Ministers, would be a confidence-building and forward-looking approach to the problem.

30. The members of the Group agreed that the proposed ministerial meeting should have essentially three functions, namely (a) to review the current state of the trading system and to consider how it might be made more effective, (b) to review the implementation of the results of the Tokyo Round and deal with issues presently under discussion in GATT and (c) to define GATT's tasks for the future. The following comments were made on these three points.

31. Several members said that the last review of the trading system at the ministerial level had taken place in 1973 in Tokyo and that, since then, the world economy had encountered severe difficulties and trade relations had come under increasing stress. Moreover, the pattern of international trade had also changed significantly, in particular as regards the developing countries whose rôle both as exporters and importers had increased. A new stocktaking at political level had now clearly become necessary. One member said that the Consultative Group had continuously reviewed the trading system; a review at ministerial level might make it possible to move from a purely analytical to a prescriptive phase. Another

member said that a review at ministerial level had the advantage that it would induce the various ministries dealing with economic policy matters in each country to take a common look at GATT. Reference was also made to the need to strengthen technical assistance to developing countries by the GATT secretariat.

32. Many speakers made suggestions on specific issue areas that should be taken up in the ministerial meeting. Some members said that the meeting should focus on what they termed the unfinished business of the Tokyo Round. Trade in agriculture, work on safeguards, liberalization of trade in tropical products and quantitative restrictions were mentioned in this context. One member stressed that it was wrong to focus solely on new rules and subject areas; the full implementation of the existing GATT provisions and the removal of all transitional measures under waivers, accession protocols, safeguards clauses, etc., was more important. Among the other specific topics suggested for discussion were: trade in services¹, structural adjustment, investment performance requirements¹, trade practices of multinational enterprises, tariff escalation, fuller implementation of Part IV of GATT, the proposed counterfeiting code and the new tariff nomenclature (Harmonized System).

33. These numerous proposals prompted some members to caution against a "laundry list" approach to the agenda for the ministerial meeting. What was needed was an agenda with a common theme, one that reflected a shared and coherent view of the future rôle of GATT. The effectiveness of the trading system, it was said, should be the main focus and agenda items should be selected accordingly. One member said that a meeting of over eighty ministers would no doubt be important but one should avoid creating excessive expectations. The time was not yet ripe to launch a full-scale round of negotiations. However, it was not excluded that particular facets of the trading system became the subject of discussions and negotiations.

¹The secretariat distributed, at the request of one member, two papers entitled "Activities of other Organizations in the Field of Services" (CG.18/W/63) and "Investment Performance Requirements" (CG.18/W/64) (see CG.18/INF/17).

34. Several members emphasized the need to consider at the ministerial meeting the question of how to integrate the developing countries, in particular the more advanced among them, more fully into the GATT system. One member said that some of the stresses in the trading system resulted from an imbalance in the rights and obligations among contracting parties and these stresses should be considered by the ministers. Another member remarked in this context that imports by developing countries had been increasing rapidly and the interdependence between the industrial countries and the Third World had therefore grown. The differential treatment of developing countries should be seen as a means to give them the possibility to play an even more important role in sustaining economic activity in the developed world. One speaker added that the ministerial meeting should not solely address developed country issues. The main aim should be to discuss how the economic situation of developing countries could be improved. One member, sceptical about new trade commitments by developing countries, stated that the stress should rather be on the question of how to give developing countries greater confidence in their GATT rights and in GATT procedures. Another member said that the ministerial meeting might be an occasion to make efforts to induce more countries to take advantage of GATT membership. The secretariat might make specific suggestions as to how GATT could be made more attractive for the developing countries that had not yet acceded to it. One speaker suggested that the ministerial meeting might also serve as a stimulus for further negotiations on trade among developing countries in the framework of the GATT.

35. On the procedural questions raised in the secretariat note CG.18/W/60, the consensus in the Group was that the CONTRACTING PARTIES should consider convening their Session of November 1982 at ministerial level. This would, it was pointed out, place the meeting firmly within the context of GATT and would give it the authority to take decisions or make recommendations with direct effect on the operations of GATT. It would also solve the problem of the attendance of observers from non-contracting parties taking an interest in GATT affairs and from international organizations. One member said that, while he was not opposed to the attendance of observers at the Session, he did not think that their participation in the preparatory work would be appropriate. It was recognized in the Group that it would be desirable to carry out the normal business of the annual Session (adoption of the report of the Council, administrative and financial arrangements etc.) at non-ministerial level, and it was suggested that about three to four days should be allocated to the ministerial phase of the Session. One member said that sufficient time should be set aside to hold informal discussions. As to the location of the meeting, there was a strong preference in the Group to hold it in Geneva.

36. It was pointed out by several speakers that the meeting, to be effective and useful, had to be thoroughly prepared and that preparatory work should begin as soon as the decision to convene the meeting had been taken. Among the members that raised the question of the responsibility for preparatory work, most felt that it should take place under the authority of the Council. One member stressed the need for the participants in the preparatory work to maintain strong links with their capitals so as to ensure a political input at an early stage of the discussions.

37. Several members addressed the question of whether the meeting should end with a declaration in which governments would commit themselves to maintain a liberal trading system. Some suggested that such a pledge would be useful as it would help all governments in their task of keeping the trading system open. Other members expressed doubts: a vaguely worded political commitment on trade inevitably drew the contracting parties' attention away from their contractual commitments under the General Agreement. The contracting parties did not need a trade pledge, the General Agreement was their pledge. There should be in the ministerial meeting an emphasis on GATT's legal framework, in particular on its proper functioning, on the ways to improve it, and on the possibilities of enlarging its field of application.

38. In concluding the meeting the Chairman said that he had noted not only the very encouraging remarks on the secretariat's work but also those on the additional aspects that could be usefully explored in further secretariat papers. There was a consensus that a ministerial meeting was needed to give the proper political impetus to the work in GATT. As to the procedures the consensus appeared to be that the meeting should take the form of a Session of the CONTRACTING PARTIES in November 1982 with one phase at ministerial level. There was a need for an adequate preparation of the meeting which would begin as soon as the CONTRACTING PARTIES had taken a decision.

Date of next meeting

39. It was agreed that the next meeting would take place on 10-12 February 1982.