

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Consultative Group of Eighteen
Twenty-sixth Meeting
27-28 February 1985

NOTE ON THE TWENTY-SIXTH MEETING OF THE CONSULTATIVE GROUP OF EIGHTEEN

1. The Consultative Group of Eighteen held its twenty-sixth meeting on 27-28 February 1985. The list of participants was circulated in CG.18/INF/27.

2. There was no formal agenda for this meeting. The Chairman, in opening the meeting, referred to the three questions which he had submitted to members of the Group in advance and proposed that these should be regarded as comprising the agenda. They were as follows:

- (i) What are the concrete results which each member would wish to see emerge from the Work Programme, and over what time-scale?
- (ii) What actions would each member's government be prepared to consider as a possible contribution to the achievement of these results?
- (iii) What can be done to give a sense of urgency and forward movement to the work, bearing in mind the pressing and generally recognized need to strengthen and restore confidence in the trading system?

3. The Chairman explained that his reason for submitting these questions to the Group was his perception of a virtually universal sense of unease about the apparent deterioration in the observance, and hence the efficacy, of GATT disciplines and the consequent erosion of confidence in the system. There appeared to be wide agreement that positive action should be taken in the GATT without delay to reverse this deterioration. He hoped that the CG.18, as the only GATT forum in which the overall direction of policy could be discussed freely and at high level, could discuss these issues frankly and constructively, because he saw a real possibility that the GATT would lose control of events in the field of trade policy unless a conscious effort were made to take matters in hand now. Though useful work had been done in the implementation of the Work Programme there was still a need to steer trade policy on to a more positive ground.

4. It was agreed that discussion should be based on the three questions submitted by the Director-General. The Group also had before it the statement made on behalf of developing countries at the fortieth Session of the CONTRACTING PARTIES on the improvement of world trade relations through the implementation of the Work Programme of GATT (L/5744). There was some discussion of the relation of work in GATT to forthcoming meetings in other fora, notably in the IBRD/IMF Development Committee.

5. There was no disagreement in the Group as to the disturbing deterioration of trade relations and of the effectiveness of GATT disciplines as a guide to national policy. The Group was warned against the danger of exaggerated comparisons between the present "disarray" of the system (particularly given the extreme pressures to which it had been subjected) and its strength and cohesiveness in earlier years. However, all members recognized the need for action to reverse the current trend towards increased protectionism and away from multilateralism.

6. The discussion therefore focussed on what form corrective action might take, and in particular on the question whether it was sufficient to focus efforts on the implementation of existing commitments and of the ministerial Work Programme, or whether to achieve substantive progress there was also need now to agree on the launching of a new round of multilateral trade negotiations.

7. Among the arguments most frequently advanced in favour of the launching of a new round was the contention that there was a growing threat to the integrity, and even survival, of the multilateral trading system and that nothing less than a major cooperative effort, with full political commitment, would suffice to restore confidence in it. One member called for a positive signal by governments to public opinion that GATT is functioning effectively. Such a signal was urgently necessary to reestablish the rule of law, and to reverse the trend towards discretionary and arbitrary policies which inevitably benefitted the powerful at the expense of smaller and weaker contracting parties, and whose continuation would at some stage bring about a fundamental transformation in the conduct of trade policies after which the rule of law would for practical purposes cease to exist. Although the launching of a new round entailed the risk of a very visible failure, this risk was far smaller than that of continued erosion leading to collapse of the multilateral system.

8. It was suggested that implementation of the Work Programme had now reached a stage at which further progress could be made only by lifting the work onto the plane of negotiation. Like all institutions GATT worked through successive impulsions, and the effective life of these became shorter as the pace of events increased. The impulsion provided by the Ministerial Meeting had now expired, and the impetus of a new round was needed to demonstrate that GATT was moving forward.

9. Another member said that simply to maintain entrenched positions implied a retreat from the concept of negotiation as a means of solving difficulties and would lead to the "balkanisation" of GATT through a proliferation of grey area sub-systems. The GATT was faced by challenges in three areas: those arising from the implementation of GATT objectives, e.g. trade liberalization; those arising from the need to reinforce the GATT system and improve its functioning; and those arising from the parameters within which trade policy must operate, such as the link between trade and monetary policy. As a means of dealing with these challenges, a new round would have the advantages of limitation in time and the package approach. His country would be willing to participate in a negotiation structured on three levels:

- A diplomatic conference among contracting parties on the possible enlargement of the system and on problems which would not be solved within GATT alone.
- Negotiations to assist the implementation of paragraph 7(i) of the Ministerial Declaration.
- Classical negotiations on tariffs and non-tariff barriers.

Negotiation could take place simultaneously on all three levels, to allow useful linkages to be made where possible.

10. Another member spoke of the dangers, particularly for its trading partners, of his country's possible loss of faith in the multilateral system. The economic recovery had not so far produced sustained growth, and it appeared that only trade liberalization would achieve this. He saw no alternative to a new round if the multilateral system was to be preserved, and the time available was very short; if the process were not started in 1985, mid-term elections in the US in the second half of 1986 would make it impossible to begin before 1989. If no consensus could be achieved for the launching of new negotiations bilateral and plurilateral approaches to trade liberalization would be found, probably resulting in agreements on non-tariff barriers based on the conditional MFN concept. Preparations for a new round could start with no commitment to negotiation proper, and even after negotiation had started there would be no commitment to accept its results until the process had been completed.

11. A number of members, while sharing the view that the GATT system was being undermined by increasing protectionism and uncertainty, questioned whether negotiations in the form proposed by some industrialized countries were the best response to the threat. It was pointed out that one major cause of the deterioration was failure to observe the commitments in paragraph 7(i) of the Ministerial Declaration and to implement in full the 1982 Work Programme. The proponents of the new round had not yet made it clear what purposes it would serve which could not be achieved through serious application to the Work Programme. There was a need to rebuild confidence on the basis of a political determination to observe existing obligations and improve the

current trading environment. Confidence building should provide the assurance that negotiations will not be a mere exchange of rights and obligations. It was also suggested that implementation of the Work Programme had been imperfect and that all elements should progress together, to ensure that ambitious and comprehensive negotiation would free up areas where it might otherwise be possible to agree in the short term. Many of the problems confronting the trading system were identified in L/5744, which also suggested certain areas of special interest to developing countries. Results could be achieved very rapidly. That document underlined the need to make progress on substance and procedure, in the implementation of the Work Programme.

12. One member pointed out that launching new negotiations would not necessarily put a stop to protectionist initiatives. Restrictive measures had been introduced during the negotiations. A decision to launch a new round could not be discussed in isolation. The content, and it was clear that while some of the elements of the negotiation, such as safeguards, were clearly within the areas of GATT concern, the inclusion of services was an extension of the GATT. This gave rise to a number of questions as to the applicability of GATT disciplines in the area of services. The objectives of negotiations on services and trade in services were covered - on which contracting parties would need to be consulted before they could be expected to respond.

13. Another member argued that the only effective way to reform the trading system was to bring national policies, particularly those of major trading countries, into line with GATT disciplines. If ministers were to be able to resist protectionist tendencies, they must be convinced that multilateral agreements would be respected by all, and would not be revised until the next round of negotiations. Negotiations would have no meaning unless their results were guaranteed by effective disciplines, and for this reason it was a vital issue. Everybody, including developing countries, wanted to reinforce GATT and promote liberalization. There was no consensus as yet on how this should be done. An immediate start on comprehensive long-term negotiations was essential, with a guarantee that protectionist tendencies would be resisted. The preferred liberalization through respect of GATT disciplines in negotiations of limited scope, within GATT competence, was a guaranteed respect of standstill and rollback commitments.

14. The safeguard problem was seen by many speakers as a critical element in the Work Programme, and an essential element being vital to preservation of credibility. It was clear that even if disagreement persisted on the question of liberalization, it would be desirable to make as much progress as possible on the key elements of the problem - the "building blocks" approach.

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15. The point was also made that further progress could be made under the Work Programme, for which the necessary machinery already existed, and that this would contribute to confidence. To launch a new round would block this process: it would also hold back the necessary process of enlargement of GATT's membership. Another member, however, said that one of the benefits of earlier rounds of negotiation had been that they had facilitated the admission of additional countries to GATT membership; he suggested that a list might be drawn up of the countries which acceded to GATT in the Kennedy and Tokyo Rounds.

16. One member, noting his country's heavy dependence on trade, and especially on the US market, stressed the importance of joint action in GATT to prevent protectionism becoming legitimized by custom and thus built in to future negotiations. If further progress on the issues central to protection could not be made in the context of the Work Programme, other means must be found. But negotiation should not begin without a firm guarantee of further liberalization and against revival of protectionism.

17. Another member said that there seemed to be agreement that the Work Programme was still valid. Even on the new round, divergences were on its timing and content, rather than on the principle. Developing countries did not want the Work Programme simply to be transferred unfinished into a negotiation and they were worried about the linkages that might be developed from the inclusion of services in a negotiation. It would be helpful if two points could be clarified: first, how would the implementation of the Work Programme be affected by a new round; second, what would be the implications of a round for developing countries, in terms of trade opportunities and increased obligations? In response to the questions posed by the Director-General, his country would as a minimum expect the Work Programme to be pursued urgently, with the respective committees having a timetable to report substantively to this Group, rather than mere extensions of their mandates. It would also be desirable to discuss in detail such matters as the implementation of MFA agreements and its effect on investment in textiles. Developing countries would be prepared to reaffirm their commitment to the multilateral system and to completion of the Work Programme, recognizing that this would involve negotiation, to which they would be prepared to contribute. Without prejudice to anybody's position on a new round, pursuit of the Work Programme should now be given top priority.

18. It was argued that the implementation of the Work Programme had been by no means unsuccessful, particularly given the background of massive unemployment, and trade had not been stifled. The GATT had been more successful in its own field of competence than the monetary organizations and should stop advertising its failures. Work Programme commitments and deadlines had largely been respected: protectionist pressures had been resisted and the impact on developing countries of measures taken had been very small. Least developed countries would benefit from free entry for all industrial products under the GSP and it might also be possible to adjust origin rules in their favour. Examination of the

different elements of the programme suggested that further progress was possible but in several areas would entail negotiation. Solution of hard-core difficulties would require give and take, leading to a better balance of rights and obligations among contracting parties. Complete satisfaction for all would never be possible, however; the losing side in a panel case would always be likely to blame the dispute settlement system, for example.

19. There was general agreement that the Work Programme must not be neglected in favour of a new round, but many speakers saw no contradiction between them. Indeed, the new round was seen by many speakers as the necessary culmination of the Work Programme. One member suggested that outstanding items of the Work Programme should be the basis for consultations on the agenda of a round, though they should not be regarded as an exclusive agenda. It was also suggested that a Special Council meeting might review the Work Programme and agree a timetable for completion of its major elements, the start of a new round being contingent on this timetable. Another speaker, who drew attention to the tendency of major countries to act outside the GATT system, often with more regard for the interests of non-Contracting Parties than for those of smaller GATT members, asked if a major effort should not be made to resolve important outstanding questions over the next six to twelve months before launching a new round. Some other members, however, thought that negotiations would be needed to complete the Work Programme and that the two processes were not sequential.

20. In discussion of the statement made on behalf of developing countries made at the fortieth Session (L/5744), it was suggested that developed countries had wrongly perceived it as negative on the question of negotiation. In fact, the willingness of developing countries to initiate negotiations, provided the Work Programme were first completed and the negotiations were confined to trade in goods, was clearly stated. In large part the statement provided answers to the three questions posed by the Director-General at the outset. The proposals made in this paper should be the point of departure for any meaningful action in GATT, on the basis that the ideas contained in it, and particularly the principle of more favourable treatment for developing countries, would not be questioned by the major trading partners. Several speakers from developed countries welcomed the readiness expressed in the statement to discuss the totality of barriers to trade and the stated objective of strengthening the GATT system. It was suggested, however, that it was not realistic to make a distinction between the preservation of the multilateral system and its strengthening, and to ask that one come before the other. Several members also said that the concept of a negotiation confined to trade in goods would not be acceptable. Services and other new issues must at least be discussed in GATT, even if it was not yet clear if they could be successfully negotiated. One speaker said that although the reduction of barriers to the exports of developing countries might be one basic objective of a negotiation, all participants would have their own objectives and must see prospects of achieving them. In answer to the point that

developing countries should embrace the benefits of liberalisation of their own economies, and of their mutual trade, it was said that an attempt was being made to organise negotiations among developing countries under the aegis of the UNCTAD.

21. It was pointed out that previous rounds in GATT had dealt with known quantities; in advance of any further round, inevitable though it might be, it would also be necessary for participants to understand the ground rules and potential implications. The fact that OECD countries did eighty per cent of international trade in services, for example, might be seen as giving them a strong negotiating position.

22. It was suggested that an early decision should be taken to set in motion the preparations for a new round, possibly at a high-level meeting to be held in the coming months. Such a meeting might take different forms - a Special Council or a Special Session of CPs for example - but the essence was that it should not be too long delayed. One member advocated a July meeting to inaugurate the preparatory work, noting that participation in this work would of course commit nobody to negotiation. Among those who favoured an early meeting, views differed as to the degree of publicity that should be given, some favouring a low-key approach, and others a highly visible signal to the trading community. Some members however cautioned against premature discussion of procedures and timetables for the preparation of a new round, because of the risk of subsequent disagreement on more substantive questions.

23. Many references were made to the influence of monetary policy and the current instability of money markets on the trading environment. It was suggested that these factors were among the main reasons for trade tensions and that to attempt to resolve the problems of the trading system while monetary disorder continued would be pointless. There was no dissent from the view that corrective action was needed in the monetary sphere, but several members argued that to delay trade negotiations on this account would be irresponsible, since GATT could have no direct influence on monetary policy and the monetary situation could in any case be very different by the end of a round. To do nothing in the trade field was to run the risk of letting trade policies become the prey of current monetary difficulties. It was suggested, however, that in his contribution to the forthcoming special meeting of the IBRD/IMF Development Committee the Director-General should make clear the concern of the Contracting Parties about the additional trade tensions stemming from monetary and macro-economic policies.

24. Concluding the discussion, the Chairman suggested that more attention should be paid to the concrete interests of Contracting Parties and less to abstractions. It was clear that at present the trading system needed a positive signal from the GATT, but the signal must be honest, and this implied that the Contracting Parties should be ready to deal effectively with the problems for which GATT was responsible. There were certainly important problems in the economic environment which were outside GATT's control, but this could not justify failure to meet our own

responsibilities. The 1982 ministerial meeting had given a signal of readiness to try to move the system forward, but with the expiry of the 1984 deadline for most of the Work Programme that signal had lost its force. We should not be deceived by the current strength of trade flows. The GATT had never been totally respected, but the erosion of respect for the rules was now palpable.

25. It was important to bridge the remaining area of disagreement between those who wish to concentrate on the work now in progress under the Work Programme and those who wish to go a stage further. Persistence of this gap would create blockages; the ability of countries to move in particular areas was already perceived as dependent on progress elsewhere. The broader implications of the questions he had put before the Group could be better appreciated if the words "trade cooperation" were substituted for "Work Programme". The CG.18 should meet again soon to discuss these issues further.

26. There was a short discussion of the desirability of calling a further meeting of the Group in April or early May. It was agreed that the Chairman would propose a date after consultation with delegations.