

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

Consultative Group of Eighteen
Twenty-seventh Meeting
13-14 May 1985

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

1. The Consultative Group of Eighteen held its twenty-seventh meeting on 13 and 14 May 1985. The list of participants was circulated in CG.18/INF/28.
2. In opening the meeting, the Chairman proposed that, as already agreed informally, it should be devoted to continuation of the discussion started at the February meeting on the need for action to reverse the trend towards protectionism and away from multilateralism, and on the form this action should take. This proposal was accepted.
3. The Chairman continued that the Group's discussion in February of the desirability of launching a new round of trade negotiations in GATT had revealed general agreement on the need to further trade liberalisation and restore the integrity of the trading system, but not on the practical steps to be taken. Opinion had been divided between those who believed that attention should be concentrated on the implementation of existing commitments and of the 1982 Work Programme, and those who believed that to achieve any further substantive progress it would be necessary to launch a new round of negotiations. This dichotomy was by no means absolute, however; it had also been argued that these two approaches were entirely compatible. It was necessary to pursue these matters further. In particular, GATT must be seen to be accepting the responsibility for its own future, especially in the light of the great interest in our work shown in other fora.
4. The Chairman suggested that the discussion should take into account the statements issued following the series of important international meetings which had taken place since February, and the report "Trade Policies for a Better Future - Proposals for Action" produced at his invitation by an independent study group.
5. The communiqué issued following the Vienna Meeting of EFTA Ministers on 10 May was introduced on behalf of the EFTA countries.
6. The member representing a group of industrialised countries said their position was that a new round of negotiations should be launched as soon as possible in order to reinforce the structure of GATT and carry forward the liberalisation of trade. Their only prior condition for launching would be the attainment of an adequate international consensus. The credibility of such an

effort would require reaffirmation and full respect of the standstill commitment, and progress in the rolling back of protectionist measures, particularly those taken in the years of recession, and continued efforts to implement the Work Programme. It would also be highly desirable, though not a precondition for launching, that progress should be made in other fora in resolving international monetary and financial problems, in parallel with progress in the trade field, since the latter might otherwise be negated by continuing monetary disorder. A particular contribution to the success of a new round could be expected from Japan.

7. Since time was short, an official meeting at high level should be held before the end of the summer, if possible in July, aimed at reaching a broad consensus on the subject matter and modalities of a new round, and on participation and timing.

8. As to the subject matter, all proposals should be seriously examined, though the existing Work Programme would obviously provide the basis for the agenda. Participation should include as many contracting parties as possible, and the round should be launched as soon as possible.

9. Responding to previous invitations to comment in detail on the statements made on behalf of developing countries in document L/5744 and the communiqué issued by the Group of Twenty-Four Ministers in Washington on 16 April, the speaker said that he found in them a number of points with which he agreed, some on which further discussion seemed to be necessary and some on which he disagreed. Among the latter, he could not agree that a negotiation should be restricted to trade in goods, since expansion of trade in services was necessary both for the creation of employment and to facilitate structural adjustment, and it was important that this expansion should be facilitated on a multilateral, not on a bilateral or regional, and therefore probably discriminatory basis. It seemed unlikely that the GATT could be applied as it stood to services or that all services would be included. Nor should a negotiation on services be seen as inimical to the interests of developing countries: many services were crucial to the development process. The GATT must however look at new areas of cooperation if it were not to atrophy, even though a negotiation on services would clearly be a long process.

10. The attitude of developing countries to the concept of reciprocity also seemed too negative. It should be recognised that the Enabling Clause and Part IV both speak of the ability of developing countries to make a larger contribution as their circumstances improved, and it was clear that not all of the existing developing countries would remain in that category permanently. Nevertheless, the main responsibility for liberalisation could not be shifted onto developing countries; each participant should contribute in accordance with its possibilities and benefit in accordance with its needs. Strict reciprocity was not expected of developing countries and the severe financial problems facing many of them could not be forgotten.

11. He could not accept that the sole objective of a new round should be to enlarge access for the exports of developing countries to industrialised markets, though this was certainly a necessary objective. His authorities were already working on possible improvements in market access for developing countries in the context of GATT.

12. On a number of points, however, he was in agreement with the views of developing countries. The 1982 Work Programme must indeed be maintained and pursued, even though a new round would probably be necessary to bring it to fruition. For example, on textiles, it would probably be possible to negotiate a transitional régime between the MFA and full application of GATT rules, including some further liberalisation for the benefit of developing countries, leading into negotiation on textiles in a new round. On agriculture the Community would be ready to negotiate, though the fundamental principles and basic mechanisms of the CAP could not be called in question. Tariff negotiations should concentrate on tariff peaks and on the level of bindings - an area in which developing countries might be able to contribute. It should also be possible to improve access for tropical products in the new round. The content of a new round must be balanced, covering the major interests of all participants. On the importance of standstill and rollback he agreed with the views of developing countries.

13. The timing of a new round was less important than its substance, but the common interest in reinforcing the system could best be served by preparing for a round on the basis of consensus. He therefore proposed an early meeting at senior official level, preferably in July, aimed at reaching a broad consensus on the content, participation and timing of a new round.

14. The proposal for a high level meeting in July was supported by a number of speakers. One member proposed that it should take the form of a Council meeting at the level of high officials, with the objective of reaching a broad consensus on the agenda of a new round, a timetable for further meetings and the date of a ministerial meeting. A possible agenda for a new round could be discerned in the welcome and useful report of the Leutwiler group - as in the Work Programme itself. The need now was to match rhetoric with action. GATT's dangerous inertia meant that decisions would be taken outside, as was already happening. It was self-evident that the world economy was endangered by unsustainable imbalances; the relationship between debt, market access and development financing was equally clear. GATT must now address the trade side of the equation; it was illusory to think that we were more advanced than the financial authorities, which had already agreed a timetable for a series of meetings of the Interim Committee dealing with issues relating to the present financial imbalances.

15. Another member spoke of the urgent need to reinforce the dwindling constituency for liberal trade in his country, where a succession of protectionist initiatives and growing tendencies towards bilateralism and plurilateralism were causing deep anxiety.

The trade deficit was expected to be over \$150 billion in 1985. The over-valued dollar and domestic economic policy were in part responsible for this, but failure to secure agreement on multilateral liberalisation efforts were stimulating a search for other forms of trade action. One current protectionist bill, for example, would impose mandatory retaliation against countries not affording equal treatment in telecommunications trade. Another widely supported bill would roll back trade in textiles to 1981 levels while a third would require countervailing action against imports benefitting from a price advantage on natural resources which was not available to third country producers. His authorities nevertheless believed a new round to be the best hope and strongly supported the proposal for a high level meeting in July. Failing that, he feared that the opportunity to act effectively in GATT would be lost. There should be no preconditions as to the subjects for discussion in the high level meeting; all participants would have their own interests and these should be respected. His country was still committed to the 1982 Work Programme, but it must be recognised that the stage of analysis and study was now over and that concrete results could only flow from negotiation.

16. Asked whether the launching of a new round would result in the withdrawal of protectionist bills, this member said that this could not be guaranteed, but that absence of any positive signals from GATT would certainly exacerbate protectionist pressures and weaken the Administration's ability to resist them.

17. The point was made by another speaker that the purely political commitments contained in the Ministerial Declaration and the Work Programme could only be translated into legal rights and obligations by a process of negotiation, leading to the signature of binding agreements. The Work Programme should be the first item on a negotiating agenda, other points being added as necessary. Most of the countries in the group for which he spoke therefore favoured a new round and supported a high level meeting, preferably in July.

18. Another member said that since September his government had taken several additional measures of liberalisation. Inter alia, Tokyo Round tariff cuts had been further accelerated, the GSP had been improved, tariffs on semi-conductors had been eliminated and the government monopoly on telecommunications had been abolished. It had been announced that in June or July tariff cuts beyond Tokyo Round targets, plus a three-year programme of liberalisation would be inaugurated. There was however a limit to what they could do unilaterally and it was therefore encouraging to see the EEC and other OECD countries coming out in support of the negotiation for which the US and Japan had called as long ago as November 1983.

19. His country was committed to early launching of the negotiation and therefore supported a July high level meeting. As to the subject matter of a round, he agreed that the Work Programme should be the basis for the selection of subjects for negotiation, but we should be flexible enough to accept all subjects of major

interest to other participants. The divergence of opinion on the inclusion of services must obviously be discussed further. Not much thought had yet been given to the modalities for negotiation, but his government was now considering a proposal that tariffs on industrial goods should be abolished by developed countries. This would solve the problem of tariff escalation and obviate the old dispute over the merits of tariff harmonisation versus uniform cuts. On textiles his country, which still faced many import restrictions in Europe even though it was a net importer from the Community, would welcome any moves towards liberalisation.

20. The proviso that a significant number of developed and developing countries should participate in the new round was very important. This need not imply participation by every contracting party, but the essential minimum would probably include, for example, the membership of the CG.18. This must be a multilateral and global negotiation - not plurilateral, regional or North-South.

21. Another member stated that his government's support for a new round - provided that issues of major importance to his country and the West Pacific region generally were adequately addressed - had been publicly stated. They were open-minded on the agenda, but believed that the focus of attention should be on trade distorting measures which previous rounds had failed to deal with properly, in such fields as agriculture, QRs, subsidies, safeguards and structural adjustment and such interests of developing countries as tropical products and textiles. In many of these areas "Trade Policies for a Better Future" provided useful guidance on possible objectives. It would of course be necessary to go beyond strengthening the rules; access to markets must be improved and distortions caused by subsidies reduced. Only by starting the preparatory process could an agenda for negotiation be established. This would not be in conflict with, but rather the necessary complement of, pursuit of the Work Programme.

22. The point was made by another speaker that further progress in many areas of the Work Programme was now stalled as countries withheld potential concessions in anticipation of negotiation. Real impetus must be given to the Work Programme, in conjunction with substantive preparation for a new round. An effective standstill and rollback must be ensured both during the preparations and throughout the round itself.

23. Another speaker argued that the new round proposal had been made in the knowledge that substantive progress on the Work Programme would entail negotiation, and on the assumption that the Work Programme provided the basis for a negotiating agenda. The Work Programme comprised many heterogeneous subjects. Some of these, such as the relationship between the IMF and the GATT and the question of structural adjustment, would entail revision of the contractual framework if they were to be dealt with seriously. Others, such as safeguards, services and intellectual property would also entail enlargement or adjustment of the General Agreement or revision of its mechanisms. There was thus a major

legislative task to be carried out. However, many other elements of the Work Programme, such as tariffs, tropical products and the status of developing countries in the GATT, related to areas of activity that had always fallen within the essential and priority business of the GATT. This suggested a need for concurrent negotiations on two levels - a "classical" round devoted to trade liberalisation and a diplomatic conference to perform the legislative tasks which would be necessary to give the classical negotiation a firm basis of credibility.

24. It would serve no purpose to force anybody's hand or to induce participation by unilateral or prior concessions or to maintain tactical postures which would falsify subsequent negotiations. It was now clear that the negotiations would take place - whether inside or outside GATT. It was much to be preferred that they should be held in orderly fashion inside the GATT. His country therefore favoured the new round. It should be so conceived as to have a good chance of success, restoring the rule of law in trade and creating a balance of rights and obligations for all contracting parties in properly defined areas of negotiation.

25. It was stated that a number of East European contracting parties would be ready to participate in a new round if it had even a reasonable chance of strengthening the GATT and promoting trade liberalisation. They had a real interest in the benefits of international trade, especially in terms of improved efficiency of national economic management systems. The basic framework for a new round already existed in the Work Programme, and the report of the Leutwiler group was also a timely and thought-provoking contribution. However, it was important that the smaller and poorer contracting parties should not be subjected to additional restrictions by major powers, such as trade restrictions imposed for political reasons. Situations of this kind would also have to be tackled in preparing for a new round.

26. Another speaker, while welcoming the tone and content of the statement made on behalf of the European Community, expressed concern about the Community's increasing discrimination against East European countries, as illustrated by the maintenance against them of quantitative restrictions which had been lifted from developing countries. The grant of special and differential treatment to developing countries did not carry with it a waiver from basic GATT obligations, such as the MFN clause, whose respect was especially necessary in relation to paragraph 7(i) of the Ministerial Declaration. It was obvious that resort to bilateralism would be very damaging for smaller countries, but even the majors would suffer from it since a narrow view of reciprocity would require the larger trading countries to match their export capacity to the import capacity of their smaller partners.

27. A number of speakers suggested that an early decision to convene a high-level meeting for the purposes which have been suggested would be premature. Time was needed to reflect on this proposal and on the recent series of formal statements relating to the idea of a new round. The experience of the Tokyo Round had

shown that a new negotiation would not solve all problems: indeed, full implementation of the Work Programme, which the inauguration of a new round would merely delay, would be a more effective answer to the crisis.

28. One member argued that while all agreed on the need for action to preserve and strengthen the multilateral system, the best way to achieve this was through strict adherence to GATT rules. All contracting parties, and especially the most powerful of them, should also follow macro-economic policies conducive to a healthy trading environment and should accept a degree of discipline in monetary policy. Trade policy actions, whether individual or cooperative, must be in line with GATT obligations. Joint action should normally take place in GATT or in compliance with GATT rules, and could take the form of general negotiations. But many practical questions, as to objectives, timing and duration, for example, must be answered before any commitment to negotiate were accepted. Just as there was no reason to fear negotiations in GATT, so there was no reason to negotiate under pressure, or without prior agreement on the subject matter. Whether in GATT or elsewhere, negotiations would have to be consistent with the GATT obligations of the participants.

29. Another speaker agreed that developing and developed countries shared many common perceptions. He welcomed the recognition of this fact in the response which had been made to the November statement on behalf of developing countries (L/5744). This statement made it clear that the developing countries were not opposed to liberalisation: many of them were continuing to liberalise and to increase imports despite very adverse economic circumstances, because they recognised that liberal trade would increase their own welfare and that of the entire trading community. Developing countries did not reject the idea of further participation in GATT obligations but their capacity to liberalise further depended crucially on access to developed markets. The persistent disparities between countries at different stages of development meant that the principle of special and differential treatment was still appropriate.

30. It was also clear from L/5744 that developing countries were not opposed to negotiations, but their experience of earlier rounds had not been altogether positive and if they were to participate in new negotiations these must follow the basic principles of the General Agreement. The GATT must be effective in its traditional areas of concern, giving full effect to elements which have been introduced in order to make the trading system more equitable. This would require concentration on GATT's proper areas of competence and implied that there was no place for services. Even the Leutwiler report had said that an effort to bring services within the GATT framework would have no future if the GATT failed to discharge its central responsibilities. In particular it would be necessary to see how the discussion of a possible new round was related to the most important element of the ministerial Work Programme, which was the standstill and rollback commitment in

paragraph 7(1) - for this was a matter not of negotiation but of respect of existing commitments. It was therefore necessary, if the system was to remain credible, to comply with the Work Programme commitments and not to try to move too fast in organising merely procedural events.

31. Other speakers also underlined the need for substantive action, rather than procedural or merely verbal solutions. The importance of parallel action in the monetary and trade fields was also stressed, the point being made that protectionist policies, especially subsidies, by depressing the revenues of efficient producers and misallocating resources in the protecting countries, necessarily lead to restrictive monetary policies and hence to inflated interest rates and exchange rate distortions. From its inception the GATT had been closely linked with the IMF and there was now a need for a reform of the international economic system as a whole. In the trade field what was needed was a return to full application of the General Agreement, plus the liberalisation which was implicit in many areas of the Work Programme. The proposals for a new round and for a preparatory meeting would be further considered, but they could not be allowed to undermine the implementation of the Work Programme.

32. It was suggested that a major initiative such as the launching of a new round could not be successful if it were made against the wishes of an important group of contracting parties, and that the creation of confidence was therefore essential. Respect of the standstill and rollback commitment by developed countries was crucial here. Developing countries which were liberalising despite severe resource constraints would of course be interested in any dialogue aimed at expanding and liberalising trade, but must be allowed time to examine all the implications of a new round for their own economies. A danger of failure caused by misunderstanding was such that further discussion in the CG.18 seemed very desirable.

33. Another speaker referred to the position taken by Ministers of the Group of Twenty-Four developing countries in their communiqué of 16 April. The economic difficulties of developing countries, which have contributed greatly to world economic adjustment and were not responsible for the present crisis, must not be aggravated by any retreat from existing GATT provisions in their favour. Each contracting party must be convinced that its own interests would be respected in a new negotiation, and for this reason adequate time to consider the proposals which had been made in this meeting was essential.

34. The point was made that the 1982 Work Programme was an agreement between governments, not merely an agenda for negotiation, and could not be renegotiated or set aside. The proposal of a high-level meeting was interesting and important, but needed careful consideration. It was not a sufficient argument for a new round that in its absence protectionism would increase - protectionism was already increasing among the major proponents of the round, which raised doubts about their real motivation in putting the idea forward.

35. One member said that the group of countries for which he spoke hoped to be able to respond to the proposals which had been made in the forthcoming Council meeting or at the next meeting of the CG.18. As trading nations, their response would be influenced by the trading climate and by any developments in relation to their own access to markets. It would be in the general interest to reach consensus peacefully, and without undue pressure, on the new round proposal, which had been described as having no pre-conditions attached to it.

36. Another member suggested that OECD countries should be held firmly to their undertaking to roll back protectionist measures as economic circumstances improved. Rollback should be associated with appropriate measures in the monetary and financial fields to enable adjustment to be made less painfully. Trade liberalisation did not necessarily require the launching of a new round. However, there was a danger that the onset of another recession before a new trade initiative were taken would mean the loss of an important opportunity. There must be broad consensus among contracting parties in favour of a round or the GATT would lose its credibility. Confidence-building measures by developed countries, if not a pre-condition, were at least very desirable. As to the timetable, it appeared that divergences were narrowing. The suggestion that a new round might be inaugurated in Brussels was a welcome sign of the EEC's commitment, but thought should perhaps be given to launching it in a developing country.

37. Another member said that his country's conclusion of a free-trade area with the United States in no way affected its commitment to liberalisation on an m.f.n. basis. They were interested in seeing the start of a new round in the GATT and supported the proposal of a high-level Council meeting. It should be noted that L/5744 did not say that all developing countries were opposed to the inclusion of services in a new round, but rather that a negotiation initiated by developing countries would not include them. His country thought that they should be included and wished to be involved from the start in the formulation of multilateral rules (which should respect the concept of special and differential treatment for developing countries) in this sector. The history of the Subsidies Code, in which individual signatories rather than the Code committee as a whole were able to decide on the terms of accession by new signatories, should not be repeated.

38. One member said that in the past twenty-five years his country, despite great poverty in resources, had been able to lift its GNP per capita from barely \$80 to nearly \$2,000. It was now the world's thirteenth largest trader, and the fact that it was still a poor country in terms of per capita income exemplified the very low marginal income from international trade. Since trade accounted for 85 per cent of its GNP any fluctuation of trading conditions immediately affected living standards and any threat to free trade was taken very seriously. The growing threat of protectionism in the USA, which accounted for over one-third of his country's trade, was therefore of grave concern. A US surcharge,

for example, would have an immediate and devastating effect. Other major questions had to be confronted, such as the stagnation of the Work Programme, which must be given a new impetus, the emergence of new trading powers and the problems caused by the overwhelming competitive strength of Japan. Against this background, it would be understood that his country, like all others, must assess in the light of its own interests the proposal for a senior level meeting and any alternative proposals for strengthening the GATT system which could be made, including parallelism between the implementation of the Work Programme and a new round of negotiations.

39. Summing up the discussion, the Chairman noted the heavy emphasis placed by many speakers on the need for parallel progress in the trade and monetary fields. It would be impossible to solve the problems of the world economy without good trade policies, but trade policy alone, however good, would not be enough. The discussion at this meeting had been interesting and constructive; in particular it had demonstrated the will of the contracting parties to reassert the responsibility of GATT for the management of the trading system it embodies and to give new momentum to the liberalisation process. Of the concrete questions discussed, one of the most important was the relationship between the implementation of the 1982 Work Programme, which was still unanimously supported - and notably the standstill and rollback commitment - and the proposal made by a substantial number of members that preparations should be started with a view to launching a new round of negotiations. The relationship of a new round to Part IV and other provisions for special and differential treatment of developing countries, and that between the process of trade negotiation and concurrent efforts in the monetary field were also of great importance.

40. The proposal that a meeting of senior officials should be convened in order to enlarge the consensus on the subject matter and modalities of a new round had been widely supported. All members of the Group had indicated readiness to continue discussion of this proposal, but a number of members had asked for more time to reflect on the matter. He therefore intended to pursue active consultations with Geneva delegations to see if further progress could be made. These questions could also be discussed further in the June meeting of the GATT Council. Meanwhile it should not be forgotten that trade was going on, and policy decisions were being taken. There was no time to waste.

41. The Group took note of the Chairman's suggestion that the next meeting of the Group should be held on 4-5 July, and agreed that this should be confirmed in consultation with delegations.

Other Business

42. It was suggested that consideration should be given to the possibility of making the proceedings of the CG.18 more transparent by admitting additional contracting parties to its meetings - if necessary without the right to speak. It was also suggested that the Chairman of the Committee on Trade and Development should be invited ex officio. The Chairman undertook to consult on these points.