

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES  
Fortieth Session

## SUMMARY RECORD OF THE FIRST MEETING

Held at the International Labour Office,  
on Monday, 26 November 1984, at 3 p.m.

Chairman: Mr. H.V. Ewerlöf (Sweden)

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### Chairman's opening address<sup>1</sup>

The CHAIRMAN, in opening the fortieth session, said that this session was only one stage in a continuing process of discussion and negotiation, but it did represent, at least in part, a pivotal point in the Work Program set by Ministers in November 1982. This was a program for the 1980s, but it was incumbent upon the CONTRACTING PARTIES to take stock and to consider if, how and when the process could be taken further, moving inevitably to a substantive phase of negotiation.

In looking at the achievements - and the failures - of the past two years, it was necessary to keep the political and economic background very much in mind. The differences of vision that had emerged as this session neared were a product of many different political and economic circumstances. The ability to accommodate all perceptions, to ensure that benefits of GATT membership were demonstrably enjoyed by every contracting party, was now the greatest challenge.

He noted that world trade had strongly recovered over the past twelve months; in the first nine months of 1984, the volume of world trade had increased by 8.5 per cent over the same period in 1983 - the result of the vigorous export performance of a number of developing countries and the rapid export growth of the industrial countries as a group. In contrast, the export performance of the oil-exporting developing countries, the Eastern trading area and many African developing countries had lagged behind the world-wide growth of trade volume. Until recently, the strong United States recovery had been the major, if not the only, driving force behind the recovery of world trade. In the first nine months of 1984, the value of US imports had

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<sup>1</sup>See GATT/1366.

been about one-third higher than in the first nine months of 1983. This was the highest one-year import jump the United States had recorded in more than three decades. By comparison, during the same period, the value of imports into Europe had increased by only 5 per cent, although there were some indications that import growth in Europe was picking up. A broader base was needed if world trade was to continue to expand at its present pace; it was clear that growth in the US economy had been fairly weak during the third quarter and the forecast was for a more moderate growth path. Yet neither in Europe nor in Japan was economic growth expected to accelerate in 1985. In sum, there was little hope that the dwindling stimulus from the United States would be fully compensated by vigorous growth elsewhere in the world economy. This prospect was particularly worrisome for the highly indebted developing countries which needed rapid export growth to cope with their debt-service problems.

The facts of the present economic situation required a closer examination of the state of trade policies. The rather stale debate on the failure of the US recovery to be transmitted effectively to Western European and other economies had been invigorated by the recent observations of the GATT Secretariat which linked the lack of investment confidence outside the United States with the uncertainties of the trading environment. In the world today, unemployment - or, more positively, the maintenance and creation of jobs - was at the front of political consciousness, especially in the context of protectionist demands. The idea that stable and secure access to markets helped create the confidence which created investment which created jobs might seem simplistic, but it had basic logic and illustrated the good sense of the ideas which underlied the open-trade system.

He referred to the first chapter of the GATT report on International Trade in 1983/84 which concluded that there was a need to revert to the fundamentals of Article I of the General Agreement - non-discrimination in trade policy. Actual or potential discriminatory trade restrictions affecting overseas markets had to be recognized as a possible significant cause of the loss of confidence on the part of would-be investors. Perhaps there was a need to take up the idea of a new binding commitment to non-discrimination.

It could be readily agreed that the climate of international trade relations was very uncomfortable and that it was necessary to improve that climate in order to make progress. While the record of the past twelve months could have been worse, and some very hard battles against protectionist pressures had been fought and won in certain capitals, in too many instances governments had found it impossible to withstand the pressure. Nevertheless, the trading system based upon the General Agreement remained largely in place - battered, perhaps, but still with strong political credibility and support. However, the warning signs

were there for all to see. The conclusions of the Textiles Surveillance Body that the Multi-Fibre Arrangement was being implemented more restrictively than before could not be ignored, nor could the report (C/W/448 and Corr.1) presented to the special Council meeting in November 1984, which indicated an increase in the number of trade restrictions taken for balance of payments reasons, a larger number of subsidy investigations, an increase in reported voluntary restraint arrangements, as well as more countertrade agreements.

He recalled the sombre economic backdrop to the 1982 Ministerial meeting which, many had said, had made concessions in the positive direction of trade liberalization impossible; it might be surprising that the situation had worsened at a time of relatively encouraging economic news. The expectation that economic recovery would evolve circumstances favourable to trade liberalization had been a delusion. Even countries enjoying the best of the recovery had found the situation to be quite different as they faced renewed, not subdued, protectionist pressures.

The pain, or expected pain, of adjustment - always at the bottom of trade policy considerations - was not necessarily less in times of economic growth than in times of recession. Thus, governments which understood the need to support the open trading system in the interests of the world's long-term prosperity seemed perpetually driven to treat adjustment difficulties in ways which distorted the international price mechanism and which perpetuated, rather than reduced, economic rigidities. Such actions were generally cast as the unavoidable results of exceptional but temporary circumstances - a well-known phrase.

In summary, while trade had improved significantly in the recent past, only if commitments were made at high political levels and were translated into action, would trade policies actually improve; without this, the current up-turn in world trade could be short-lived. The Ministerial Declaration and the Work Program were meant to be a prospectus for a more promising future. It was the CONTRACTING PARTIES' business during this session to assess the situation two years after the Ministerial Declaration and to consider how best to proceed into 1985. This assessment was bound to be subjective; every contracting party had its own particular objectives and aspirations when the Program was agreed in 1982 and all had differing perceptions of the present state of work as well as of future priorities. Any successes achieved during the past two years should not be over-inflated; but nor should there be excessive gloom, as there were some decidedly positive developments to report.

He said it was perhaps in the field of agriculture that the past two years had been most profitable. At the very least, the proposals in this area could be seen as the outcome of the healthiest, most

forthcoming debate on the nature and scale of trade-related policies in the agricultural sector there had ever been in GATT. He did not believe that this process was going to stop. He noted that trade in textiles and clothing was an area where the high costs of protectionism were becoming more publicly evident. The Secretariat report "Textiles and Clothing in the World Economy", published in the summer of 1984, demonstrated in detail what had been recognized instinctively or through experience - that protectionism in this sector had been of little benefit to the textiles and clothing industries of the developed countries and of enormous harm to other sectors, as well as to the economic prospects of the developing world. The working party set up to pursue the Ministerial mandate had only recently started its work; nevertheless, it was encouraging that there was now a wide-ranging discussion of alternatives to the over-managed trading system that had developed in textiles and clothing over the past quarter century. There was equal reason for encouragement in the work done in the area of quantitative restrictions and other non-tariff barriers, a vast and exceedingly difficult part of the Work Program. The group set up for this purpose had put forward a report (L/5713) which contained some challenging proposals, provided governments were prepared to accept their intent and purpose.

During the next few days, the CONTRACTING PARTIES would have to consider the prospects for translating some of these successes, which had created the basis for negotiation, into negotiation itself. Other areas where there had not been similar success must be examined, including those where even agreement that a problem existed was a long way off, let alone agreement that negotiation in GATT was appropriate and possible.

The Chairman of the Council would report on continuing attempts to achieve a comprehensive agreement on safeguards. This problem was fundamental to the urgent need to get the trading system operating more effectively, yet it had defied solution for years. As so-called voluntary restraint arrangements and other market-sharing agreements had proliferated, the situation had worsened. Gentlemen's agreements to ignore or circumvent the system of rules did not, as was sometimes said, preserve the system itself. In reality, they served to chip away at the credibility of the system, making strict observance of the rules a less and less attractive political option.

The state of work relating to the developing countries also had to be examined: while there had been some comparative success with the Part IV consultations in 1984, other aspects of the Work Program which related to developing countries had seen little progress outside fairly comprehensive examination and consultation.

He noted that there appeared to be a certain lack of confidence, in some quarters, in the multilateral system that up to now had served so

well. One increasingly heard statements suggesting an impatience with the system so deep that allegiance to it was in question. In particular, one heard the view that while multilateralism was the preferred and wise choice, a bilateral alternative was sometimes unavoidable. While such frustration was understandable, the medicine was potentially much worse than the illness. It also had to be recognized that GATT was not, and could not be, a static entity; it had been extending its horizons and refining itself ever since its inception, and the process of change could not stop now. The world changed daily as did the nature of international trade and its problems. GATT had the unique responsibility for administering and evolving a set of binding rules of trade, and the CONTRACTING PARTIES had to face up to the last half of the 1980s in which the nature of international trade would continue to change.

It was up to the CONTRACTING PARTIES to demonstrate the willingness to create the conditions in which a roll-back of trade barriers could be realized. This session would be about the vision of the future, the recognition of the need to cope with new challenges and grasp opportunities to open up the international trading system in the interests of all contracting parties. Above all, the multilateral approach had to be upheld and strengthened; bilateralism would lead only to further fragmentation of the world economy, less fairness in world trade and, ultimately, a reduction in the economic opportunities of all nations. 1985 could be seen as a window of opportunity - the last chance for a lengthy period to reconstruct and push forward the horizons of the trading system. He did not advocate the apocalyptic view that it was 1985 or never; nevertheless, there was both political and economic sense in the idea that 1985 could be propitious.

In concluding, he hoped that the informal consultations taking place during the session would further broaden the agreements being sought.

#### Adoption of the Agenda

The CHAIRMAN noted that the Provisional Agenda was contained in L/5705.

The Agenda was adopted.

#### Order of Business

The CHAIRMAN drew attention to the Proposed Order of Business circulated in W.40/1. This document gave an outline of how business during the session might be conducted, beginning with the presentation of reports by the Chairmen of the Council and of the Committee on Trade and Development.

He suggested that the specific matters related to the Work Program be dealt with together, and separately from the other matters referred to in the Council's report. If there were matters to be raised which did not appear in the Council's report, these could be brought up under Item 2 - Activities of GATT.

The CONTRACTING PARTIES approved the Order of Business as proposed in W.40/1.

#### Presentation of Reports

Mr. JARAMILLO (Colombia), Chairman of the Council, introduced the Council's report (L/5734 and Add.1). He said that the Council had had another heavy and difficult year; the diversity of the trade issues which had come before it was striking, and illustrated that the Council was the focal point of all GATT's activities between sessions of the CONTRACTING PARTIES. He noted that the Council had established many of GATT's committees, most of the working parties and the panels on disputes, and also such bodies as the Consultative Group of Eighteen. It was to the Council that those bodies regularly reported; it was also in the Council that delegations had the opportunity to address every subject of importance to them, including the Work Program, specific trade disputes between contracting parties, the creation and operation of regional trade agreements, waivers, emergency action on imports, developments in world trade and the GATT system, and GATT's administration and budget. The agenda of the Council's regular meeting in November 1984 - packed with substantive items of vital importance to the contracting parties individually and to the multilateral system as a whole - was proof of how the Council's activities and responsibilities had grown.

He said that some encouragement could be drawn from the fact that the reports of recently established panels had clarified important GATT legal issues, even if there were improvements to be made given the time and difficulties experienced in agreeing on panel membership and follow-up. The Secretariat's aid had been significant in this process. In the broader context, it was evident that contracting parties continued to make active use of the Council to defend their trade interests and the effectiveness of the GATT system as a whole.

He referred to the Council's twice yearly reviews of developments in the trading system. At the most recent Special Council meeting in November 1984, there had been general agreement that the Council had "hit its stride" in this task, thanks in part to the greatly improved documentation which the Secretariat had provided, and to the willingness and desire of delegations to carry out the exercise in a meaningful way.

He noted that one item of "unfinished business" resulted from the continuing increase in the number of requests for observer status in the

Council from countries considering accession to GATT. The increase in such requests, coupled with those from international organizations, had led to informal consultations on how the Council should deal with them; these consultations would continue with a view to strengthening the GATT system and protecting its efficiency.

With regard to efficiency, he noted that the Council's responsibilities, and accordingly, the workload of delegations and the demands on the Secretariat, continued to increase. GATT was alive today and attractive to its members only because it had constantly adapted over the past 37 years. There was merit to active consideration of how to maintain the effectiveness of the Council, the central body in the system. Care must be taken to ensure that the limited time that delegations had at their disposal for Council meetings, and the Secretariat's resources, were put to the most efficient and productive use.

In concluding, he noted that the procedure of referring difficult matters to the Council Chairman for consultations had proved useful and sometimes indispensable, but he emphasized that it should not be overdone. He suggested that such consultations -- precisely because they could be so effective in solving problems among contracting parties ahead of Council meetings -- be spread more evenly among the Chairman of the Council, the Chairman of the CONTRACTING PARTIES, the Vice-Chairmen and the Director-General. It was his feeling that requests for informal consultations should be made only when really necessary and where there was a prospect of constructive result; they should not be seen as a convenient escape-route mechanism for postponing Council action or discussion.

He noted that the Council's report was contained in two documents: the first (L/5734) covered matters generally dealt with on the Council's agenda, and the second (L/5734/Add.1) contained those items related to the implementation of the Work Program. At the November Council meeting, he had been authorized to pursue informal consultations on certain matters which remained pending at the close of the meeting. He said that these consultations were still underway, and requested that he be allowed to inform the CONTRACTING PARTIES of the results of these consultations later in the session.

Mr. CHEW (Singapore), Chairman of the Committee on Trade and Development, presented the Committee's report (L/5735). He said that in addition to the regular activities of the Committee under its mandate and the 1979 GATT work program, it had been concerned during 1984 with implementation of the 1982 Ministerial decisions regarding Tropical Products and GATT Rules and Activities Relating to Developing Countries.

The Committee's activities had encompassed work in the following areas: consultations with contracting parties, individually or collectively, as appropriate, to examine how individual contracting parties had responded to the requirements of Part IV; review of the

operation of the Enabling Clause (BISD 265/203) in accordance with its paragraph 9; examination of prospects for increasing trade between developed and developing countries and the possibilities in GATT for facilitating this objective; the work of the Sub-Committee on Trade of Least-Developed Countries; and technical assistance to developing countries. The Committee had also carried out extensive consultations on tropical products. The activities and discussions which had taken place in each of these areas were recorded in the Committee's report to the CONTRACTING PARTIES. He drew attention to paragraph 70 of the report, which contained the Chairman's summing-up of the Committee's activities in relation to the 1982 Ministerial Work Program.

In regard to its regular program of work, the Committee had continued to review the implementation of Part IV and the operation of the Enabling Clause. In 1984, the review had relied on the country consultations concerning implementation of Part IV, as well as on the discussions in the Sub-Committee on Protective Measures and in the Committee itself, which were based on submissions made by contracting parties and material prepared by the Secretariat.

With regard to expansion of trade among developing countries, the Committee had taken note of the Eleventh Annual Report of the Committee of Participating Countries on the Operation of the Protocol Relating to Trade Negotiations Among Developing Countries (L/5686 and Add.1-4). The Committee had also taken note of a submission by Kuwait on the Unified Economic Agreement among the States of the Gulf Cooperation Council, and of the Report of the Latin American Integration Association (ALADI). As in previous years, the Committee had continued to review developments in international trade affecting the trade and payments position of developing countries.

Finally, he drew attention to certain methodological aspects of the Committee's present and future work. In the light of experience gained over the past two years, under the procedures adopted by the Committee for Part IV consultations as well as for the overall review of Part IV and of the Enabling Clause, a number of suggestions had been made by delegations regarding preparation of documentation and methods of work. At the same time, valuable suggestions had been submitted to the Committee by the Chairmen of the Sub-Committees on Protective Measures and on the Trade of Least-Developed Countries, which provided major inputs for the Committee's overall work program. The Committee would give careful consideration to these suggestions in the course of its future meetings so as to improve further its working procedures and the documentation available to it.

The CHAIRMAN then drew attention to the reports of the Committees and Councils charged with implementation of the MTN Agreements and Arrangements. He noted that a proposal relating to these instruments had been forwarded by the Council (C/W/456) and could be taken up when this point was considered.

The meeting adjourned at 4.30 p.m.