

GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES
Fortieth Session

SUMMARY RECORD OF THE SEVENTH MEETING

Held at the International Labour Office
on Thursday, 29 November, at 4 p.m.

Chairman: Mr. H.V. Ewerlöf (Sweden)
(for the first three statements)
Dame Anne Warburton (United Kingdom)
(for the remaining statements)

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Activities of GATT, continued

Mr. BATISTA (Brazil) said that while developments in world trade since the 1982 Ministerial meeting had brought back an undeniable degree of optimism, trade growth would have been higher had protectionist policies not persisted beyond the recession. The recovery had not brought about the anticipated relaxation in protectionist pressures in industrialized countries; this was particularly disquieting in the light of commitments undertaken in 1982; the intensification of trade restrictions had revealed a disregard for those commitments that had to be condemned and corrected. A trend of particular concern to developing countries had been the persistent resort by industrialized nations to discriminatory, protectionist measures. Even the textiles sector, already subject to discriminatory treatment for over a decade, had recently been the target of new and revised forms of discriminatory protectionism, and such restrictions had been increasingly applied to other sectors where developing countries had demonstrated comparative advantage. This situation had led Brazil to query how much trade among contracting parties was actually carried out in keeping with the m.f.n. principle and with GATT rules. Nevertheless, his country believed that a basis for tackling the central problem of the international trading system had been laid by Ministers in 1982, and that the Work Program provided a complete plan for re-establishing GATT's rôle in world trade. Strict compliance with commitments undertaken and strict observance of present disciplines were prerequisites for strengthening the GATT system.

He said that the safeguards issue lay at the heart of the preservation and strengthening of the GATT system. A comprehensive understanding on this issue was essential to sustained and significant trade liberalization, and Brazil would collaborate actively to that end. He stressed that in order to liberalize trade for the benefit of all contracting parties, concerted efforts to abide by the rules and commitments had to be made by both developed and developing countries, with due consideration given to the differing stages in their development and to the overall balance of rights and obligations among them. Brazil endorsed the statement by India in L/5744 and was prepared, once the pre-conditions contained in this document were met, to discuss the ground rules for a negotiating process; it would, however, be reluctant to support initiatives which did not embrace full implementation of the Work Program, or which either focused disproportionately on themes of doubtful relevance to the GATT system or were alien to the specific interests of a group of contracting parties. Brazil rejected the linkage between implementation of the Work Program and institutional matters. While his country would follow a consensus on the agreed conclusions on services, it nevertheless considered that this issue had not reached a stage where decisions could effectively be taken. It was likely to be many years before this stage was reached.

Referring to one delegation's analysis of North-South relations under the aegis of the General Agreement, he said that this was distorted and failed to put the blame for the system's disintegration where it belonged. Provisions for differential treatment for developing countries were an integral part of the legal framework under which contracting parties had placed themselves, and could have contributed much more than had been the case to narrow the gap between developed and developing contracting parties, had the provisions been complied with. In conclusion, he said Brazil considered that bilateralism in trade relations led ultimately to the fragmentation of the world economy, to less fairness in world trade and to reducing economic opportunities and efficiency for all trading nations. He called on the CONTRACTING PARTIES to pave the way towards strengthening multilateralism through respect for GATT rules and commitments, and through consistent implementation of the Work Program.

Mr. MIZOGUCHI (Japan) said that the Japanese economy, which had bottomed out in the first quarter of 1983, was steadily on the way to recovery, and that the growth of domestic demand, together with the series of market-opening measures implemented by his Government, had resulted in increased imports. It would not, however, be an easy task to sustain current economic expansion, given the geographically unbalanced recovery, huge fiscal deficits in the major industrialized countries, accumulating debt in the developing countries and structural rigidities underlying severe and widespread unemployment. Against the background of these difficulties, protectionist pressures had persisted, even though the world economy was showing considerable recovery. In

order to counter these protectionist pressures effectively, the CONTRACTING PARTIES should resolve to make maximum effort, individually and collectively, to maintain and strengthen the free-trade system of which GATT was the cornerstone. He pointed out that since December 1981, Japan had implemented a series of external economic policies, including such trade-expansion measures as tariff reductions, improvements in the Generalized System of Preferences, relaxation of import restrictions, and improvements in Japan's standards and certification systems. Recently, additional tariff eliminations and reductions had been announced. New steps had also been decided upon in areas such as high technology, financial and capital markets and promotion of international investment. His country recognized the economic problems facing the developing countries, and was considering what measures could be introduced which would take account of their interests as well as Japan's.

Turning to the issue of a new round of multilateral trade negotiations, he said consideration should be given to preparing this step, in order to restructure the open and non-discriminatory trade system of which GATT was the foundation. A new round could also make a positive contribution to improving the trade environment for developing countries, and to adapting the General Agreement to changing economic and trade structures. He said it should be ensured that as many countries as possible participated in such negotiations within the GATT framework and that, in the light of the present economic situation and in the interests of all participants, such a new round embraced the major elements as comprehensively as was practicable.

In conclusion, he said that Japan shared the view, from both the political and economic standpoints, that 1985 might be a propitious year for new multilateral trade negotiations. The CONTRACTING PARTIES' most urgent task was to attain, as soon as possible, a return to the open and non-discriminatory multilateral trading system; thus, it was important to hold a GATT meeting of senior officials to initiate the preparatory work for a new round as early in 1985 as was practicable.

Mr. LACARTE MURO (Uruguay) said that the growth in the volume of world trade by 8.5 per cent in 1984 as well as the remarkable increase in US imports over the preceding few years had not been of equal benefit to all contracting parties. He stressed the need to keep in mind the worsening terms of trade for developing countries, due to the continued strength of the dollar resulting in a drop in many export prices expressed in dollars. He added that many forms of protectionism were still having a negative influence: discrimination, import restrictions of all kinds and increased intervention in internal and external markets had been applied to the serious detriment of consumers and producers. The result had been an increasing distortion of international trade, with the negative effect that temporary measures tended to be converted into structural and permanent features in a desire to legitimize certain protective actions which ran counter to the laws of economics. This had been occurring at a time when declarations in support of trade

liberalization were being made simultaneously with the adoption of measures contrary to such stated aims. This situation had been exposing GATT to the danger of becoming a façade which did not reflect the reality behind it. The time might soon come for the contracting parties to choose between following the present course and deciding to work together to reaffirm, in word and deed, their commitments under the General Agreement.

While there had been renewed efforts to accelerate implementation of the 1982 Work Program, no noteworthy progress had been achieved in 1984. He referred to the statement by India in L/5744 and asked how new areas could be considered when commitments made under the General Agreement and at the 1982 Ministerial meeting, as well as in other GATT bodies, had not yet been fulfilled. He went on to say that the external debt faced by many developing countries could only be alleviated by surpluses in their trade balances. Many developing countries, including Uruguay, had already liberalized their import systems. However, they would only be able to import more from developed countries to the extent that they were able to export more. He asked whether developing countries should be expected to assume responsibility for the systematic application of measures which limited or excluded access for their products and which had not fulfilled the purpose of offering the differential treatment provided for them under the General Agreement. He wondered whether the developing countries were actually receiving better or worse treatment than that established in the most-favoured-nation clause.

Concerning the possibility of a new round of multilateral trade negotiations, he said that these should not replace or impair the implementation of existing obligations under the General Agreement, as those provisions formed the common denominator holding the trading system together. He repeated his delegation's support of the multilateral trading system under GATT as the most appropriate machinery for the growth of the world economy.

Mr. SOSNOWSKI (Poland) said that his country had joined in the consensus to adopt the 1982 Ministerial Declaration with the expectation that the elements of the Work Program, while mutually interlinked, would be tackled according to their relative priority; in Poland's view, these priorities had been well established both in the preparations for the Ministerial meeting and in the Declaration itself. While his delegation maintained its commitment to that text, it noted with concern a growing imbalance between the modest results of work on the most essential and long-standing problems incorporated in the Ministerial Declaration on the one hand, and the emphasis on certain new aspects of less than universal interest on the other; this imbalance seemed to have cast a shadow on the current session. While admitting the modest results in implementing the Work Program, his delegation joined those with a cautiously optimistic view of options available to GATT; to do otherwise would be tantamount to acknowledging the failure and breakdown of the system.

He went on to say that although the recommendations in L/5732 concerning trade in agriculture were a far cry from the bold expectations of 1982, the work already done contained the possibility of a successful search for liberalization in this sector. The work on quantitative restrictions had resulted in a useful, though incomplete, stock-taking of restrictive measures; his delegation was disappointed, however, that no common view had been reached on how to liberalize trade régimes and, in particular, how to proceed with the unconditional elimination of quantitative restrictions recognized as inconsistent with GATT. Turning to safeguards, his delegation continued to believe that a non-discriminatory, fair and open application of Article XIX was an essential yardstick of the quality of the entire GATT system. Regarding notification, consultation, dispute settlement and surveillance, Poland considered that work in this area should aim at neutralizing potential conflicts before they developed and, when they did occur, should secure the necessary discipline to implement panel recommendations. He added that new efforts were needed in the field of textiles to stem the rising tide of trade-restraining measures which were being added to the generally restrictive provisions of the extended Multifibre Arrangement. A broad review of the situation in this area would be needed within the following few months in order to prepare for a decision on the future of the Arrangement. A reaffirmation of the m.f.n. principle was also necessary; GATT provisions concerning differential and more favourable treatment for developing countries should be fully observed.

Against this background, Poland considered that a new negotiating round did not yet appear to be in order. Without prejudging the outcome of further discussion on starting such a round, he suggested that two situations should be avoided: one, in which preparations for a new round would become a substitute for action on the present Work Program; and two, in which the priority issues of the Program would serve as bargaining chips in a trade-off between new subjects and the outstanding elements of unfinished business.

Mr. HILL (Jamaica) noted that structural unemployment was a formidable challenge to governments. Faced with the problems of economic recession, stabilization and adjustment, it was difficult for developing countries to stimulate their domestic economic activity; they had to depend on external demand through better access to other markets to stimulate economic activity. He was surprised to see that both business groups and trade unions in industrialized countries were lobbying for increased protection in an effort to save jobs; while the protectionist measures adopted by governments had the effect of saving jobs, they could not contribute to actually creating employment. Governments alone could not be held responsible for protectionist measures, although they bore the ultimate responsibility for succumbing to protectionist pressures. Developing countries had pressed the case for restoring growth and employment on different occasions, but in vain.

He said that the GATT multilateral trading system offered a tested means of trade liberalization and expansion. Higher employment, production and income levels could be achieved only through trade on a non-discriminatory basis and by providing differential and more favourable treatment for developing contracting parties. Jamaica endorsed the views expressed by India in L/5744 and believed that the benefits of GATT membership had to be demonstrably shared by every contracting party. He recalled that the Jamaican Minister of Foreign Affairs and Foreign Trade had suggested in 1982 that the organization and working methods of the GATT Council had to be improved; that protectionist measures had to be brought within GATT and subjected to its disciplines on a progressive basis; that the Council should carry out a comprehensive review of the results of the Tokyo Round multilateral trade negotiations to ensure full consistency with the General Agreement; that outstanding issues had to be resolved; that the "enabling clause" and Part IV of the General Agreement had to be more effectively implemented; and that the 1982 Work Program had to be faithfully implemented.

Jamaica was concerned to see that, since the adoption of the 1982 Work Program, protectionism had increased and was dampening the prospects of recovery. No progress had been made on structural adjustment, and the developed contracting parties had failed to fulfil their commitment to a standstill on protectionist measures. Too often, issues identified for further analysis had not been addressed immediately; recommendations by panels had not been acted upon; consultations had multiplied outside GATT, and "managed" bilateral trade, in violation of GATT rules, had increased. International financial institutions, which were deadlocked on monetary and financial reforms, were increasingly asserting themselves in the trade field. GATT thus risked being marginalized. On the positive side, however, Jamaica viewed favourably the advanced implementation of tariff cuts agreed in the Tokyo Round, the promising beginnings on liberalizing trade in agriculture, the renewal of schemes under the GSP and the application of differential and more favourable treatment for the small open-trading nations in the Caribbean Basin.

He expressed his delegation's interest in the work of the Study Group (SR.40/8, page 11) on international trade issues. He regretted that the proposal put forward by his country at the 1982 Ministerial meeting to convene another meeting at Ministerial level in 1984 in order to take stock of progress on the Work Program, had not been adopted. The lack of progress in implementing the Program had been caused by lack of political support and the indecisiveness of governments; if the present session had been held at Ministerial level, more progress could have been made.

He urged that the tendency to resort to solutions outside GATT should be avoided; discussions of trade issues in international financial institutions should be discouraged, especially since those bodies had failed to provide the liquidity and resources for investment and increasing output and employment, but were now engaged in calling for a new round of trade negotiations. He added that the conventional conceptual approaches to international trade should be re-examined; the multilateral trading system and international financial and development institutions should encourage trade among developing countries which could strengthen the international economy. He concluded by expressing Jamaica's support for a new round of trade negotiations, while stressing the need to establish techniques and modalities for such negotiations on a mutually agreed basis.

Mr. LATIMER (Canada) said that the 1982 Work Program was an important and necessary step in the development of the multilateral trading system, dealing with the essential issues which had persisted since the Tokyo Round and providing the necessary vision for the problems of the 1980s. Certain commitments in the Ministerial Declaration had been individually and collectively accepted, but each of the contracting parties had assigned its own priority to the Program, according to its own national interests. The Declaration should, however, be seen as representing the collective will of all the Ministers, and as such should be taken in its entirety as a priority for all.

He observed that both economics and politics converged in the field of trade. GATT operated on a pragmatic basis in providing a framework for the conduct of trade; it served and protected the interests of sovereign governments through a process of consensus. Each contracting party was one among equals, regardless of its economic weight. While contracting parties had different priorities, it had always been GATT's practice that each member's interests were respected by the others. When any problem arose which a member country wanted to have discussed in a working party or any other forum, this was so done; Canada felt it would be a matter of serious concern and a dangerous precedent if existing practice were not reconfirmed at the present session.

He added that Canada had actively participated in implementing the Work Program over the past two years and, like others, had given priority to a number of areas of particular interest to it, including trade in certain natural resource products, agriculture, dispute settlement, safeguards and services; however, it had also encouraged and worked towards progress in all items of the Program. Considerable useful work had been done, although not every item had proceeded at the same pace and there had been disappointments in which his delegation shared. Political will was necessary if the Program was to be fully implemented, but it could equally be said that progress in GATT was necessary if that political will to strengthen the system was to be

sustained. Canada was prepared to contribute to further efforts in concert with other contracting parties. If the past weeks had been particularly difficult in GATT, this was perhaps because the contracting parties were near, or had already entered into, a negotiating stage on a range of issues which were important to all of them; this was a positive and healthy sign. The Work Program was a means to the end of strengthening multilateral trade co-operation through GATT; a new round of negotiations which would respond to the interests of all contracting parties was important to that end. While recognizing that there were still many bridges to cross, Canada hoped that the next session of the CONTRACTING PARTIES would see this process on its way.

Mr. MEJIA-RICART (Dominican Republic) associated his country both with the statement by India in L/5744 and with the resolutions by the Council of the Latin American Economic System (SELA) concerning the Work Program and other topics dealt with in the present session. He said that the international economic crisis was having a devastating effect on social order in Latin American countries, many of which had been obliged to implement severe austerity measures as part of their adjustment process; this had led to a drop in their standard of living and also in their prospects for economic improvement. These countries were seriously affected by the growth in external indebtedness caused by high interest rates and by repayment conditions extracting a large amount of the foreign exchange which they needed to finance their own development. He referred to the difficulties resulting from rising protectionism in major export markets and from the effect of subsidization policies in these markets, and said that the case of sugar was particularly severe. Sugar exports had been the Dominican Republic's main source of foreign exchange, but in addition to a steady drop in price over the last ten years, the European Economic Community - traditionally a net importer of sugar - had become a net exporter in this market through a policy of subsidization. A recent UNCTAD conference on sugar had failed to draft an international convention to improve the world sugar market, precisely because of the developed countries' efforts to expand their exports. The result was the erosion of this industry in third world countries.

He said that before thought could be given to a new negotiating round or to the inclusion of activities not already provided for under the General Agreement, such as services, the members of GATT and, in particular, the major industrial powers should become aware of their responsibilities. The Dominican Republic called upon these countries to open their markets to the exports of developing contracting parties without demanding reciprocity, and to contribute effectively to alleviating their financial burden. It was hoped that during the present session, understanding, tolerance and a spirit of international solidarity would prevail over the limited interests of individual nations, and that significant agreement would be reached to the benefit of all contracting parties.

Mr. SMITH (United States) said that although modest progress had been made on the Work Program, his Government had been struck by the considerable amount of time which had been devoted to resolving largely procedural questions; the substantive aspects of many issues in the Program had yet to be addressed. This was particularly true regarding the new issues now confronting the GATT trading system. For GATT to continue to provide an effective framework for international trade, it had to be dynamic and flexible, and capable of responding to new challenges. If emerging issues were not addressed within GATT, contracting parties would lose interest and inevitably turn to other means to pursue their national trade objectives. While the traditional issues should not be ignored - and indeed, work should continue in those areas at an accelerated pace - his delegation could not accept the premise put forward by some contracting parties that all past outstanding issues must be resolved before new challenges could be addressed. The United States believed that it was essential for all elements of the Work Program to move forward together.

He said that the US recovery had been a major driving force behind the recovery of world trade. The value of US imports had increased by one third in 1984 and most of its trading partners had increased their exports to his country. He refuted claims made by some contracting parties that the United States had become protectionist, and pointed to the shift in the US trade balance with six Latin American countries from a surplus of US\$ 5.4 billion in 1981 to a deficit of US\$ 16 billion in 1984. There had been, however, little growth in US exports, which continued to face barriers in foreign markets and unfair trade practices by foreign competitors in third-country markets. He referred to the current US trade deficit, which was expected to reach US\$ 130 billion in 1984, as a sombre backdrop to US efforts to resist strong protectionist pressures. His authorities had worked hard and successfully over the past year to resist those pressures. He emphasized that while the 1984 US Trade and Tariff Act had been the product of three years of consensus-building and debate, the consensus favouring liberalized trade was fragile. His Government would continue to resist protectionist pressures in 1985; however, the United States would need help from its trading partners to do so. It would be difficult to maintain the current degree of liberal access to markets in the United States in the absence of concrete efforts by its trading partners to expand market access for US exports and to eliminate trade-distorting practices.

The United States considered that GATT was first and foremost an organization of trading countries and not an organization of blocs; GATT's primary objective was not to promote dialogue between developing and developed countries, but rather to promote dialogue between trading countries.

The United States considered it essential for GATT to prepare now for negotiations on additional trade liberalization, including emerging areas of crucial importance not only to his country but to the future of GATT as an institution. His delegation supported the European Community's call for a senior-level meeting in the course of 1985 for that purpose. He concluded by observing that 1985 could provide a rare window of opportunity; the responsibility for whether or not that opportunity was seized lay with every contracting party.

Mr. GARRIDO RUIZ (Mexico), speaking as an observer, referred to the opening statement of the Chairman in which he had said that the current upturn in world trade would be short-lived if commitments made at high political levels were not translated into action. He congratulated the Director-General on the frankness of his views expressed at the International Chamber of Commerce meeting at Stockholm in June 1984, and at the International Round-Table on the Multifibre Arrangement at Berlin in September 1984, regarding the problems of international trade and, in particular, the future of the Multifibre Arrangement. He added that it should always be remembered that the willingness and capacity of developing countries to increase their imports were inextricably linked to their ability to export more. The 1982 Ministerial Declaration and the subsequent Work Program had failed to produce positive results due to lack of political will. Mexico considered that GATT should be viewed as a collegial forum in which the contracting parties could adopt decisions in keeping with the present international trade situation; there was a need to achieve trade liberalization through co-operative efforts and better understanding of each others' problems. Trade was an engine of growth and as such should be encouraged to sustain the tempo of development in the developing countries. It was well known that uncertainty in access to markets hampered investment, without which employment and production declined.

He noted that Mexico was not a contracting party, but that it participated in GATT meetings as an observer with the purpose of contributing positively to international trade. His country had found it necessary to adjust its levels of selective import protection through tariffs as the main instrument, making industry more competitive, which in turn would encourage exports. This adjustment in trade would involve sizeable economic and social costs in certain sectors both in the short and medium term. Further details of these measures were contained in Mexico's National Development Plan and the National Program for Industrial Development and Foreign Trade which he would submit to the Secretariat for information.

Report of the Council, (L/5734/Add.1) continued

Following a brief recess, Mr. JARAMILLO (Colombia), Chairman of the Council, concluded his presentation of the Council's report on its work since the thirty-ninth session in relation to the 1982 Work Program. He noted that the portion of the Council's report concerning the Work Program (L/5734/Add.1) contained a brief account of the discussions which had taken place on each item in the Program during 1984 and, wherever possible, indicated action taken by the Council. On a number of items it had not been possible to give such an indication because consultations were still in progress at the time the report had been drawn up; these consultations had now been completed and their results would be included in this statement.

He recalled that he had been authorized by the Council to report to the CONTRACTING PARTIES on the results of the informal consultations held on the safeguards issue, and that he had made such a report in document MDF/4. He regretted that it had not yet been possible to reach a comprehensive understanding on this matter, but said that the work done in 1984 might provide a basis for future agreement.

He noted that the Council had transmitted reports or other documents to the CONTRACTING PARTIES for their consideration and for action where appropriate, on the following items: Dispute Settlement Procedures, Trade in Agriculture, Quantitative Restrictions and Other Non-Tariff Measures, MTN Agreements and Arrangements, Structural Adjustment, Export of Domestically Prohibited Goods, Textiles and Clothing, and Natural Resource Products. He then recommended that the CONTRACTING PARTIES adopt the Council report on these items, together with the recommendations contained in the relevant documents. Regarding rules of origin, he said it had been agreed that a proposal put forward on this subject should be pursued in the Council. He added that five items in the Work Program had been considered by the Committee on Trade and Development and were dealt with in the report (L/5735) by that Committee to the CONTRACTING PARTIES.

Turning to the subjects on which informal consultations had recently been held, he said that agreements had been reached on the basis of which the CONTRACTING PARTIES could take decisions on the issues of services, trade in counterfeit goods and exchange rate fluctuations. He then read out the text of the draft decision on trade in counterfeit goods and the agreed conclusions on services, and noted that the latter were subject to two understandings; these documents, together with an agreed text on the issue of exchange rate fluctuations and their effect on trade, would be available early the next day for consideration by the CONTRACTING PARTIES. The question of trade in high-technology products, which had been referred to the Council by the CONTRACTING PARTIES at their 1982 Session, remained unresolved and might be pursued further in the Council.

The CHAIRMAN said that it was now up to the CONTRACTING PARTIES to take a position on the Work Program as a whole, and suggested the order in which the remaining items would be addressed on the following day.

The meeting adjourned at 7:45 p.m.

MEMORANDUM

TO: All participating members of the MFA

FROM: M.G. Mathur
Deputy Director-General

1. The Sub-Committee on Adjustment, in its report to the Textiles Committee in October 1984, made the following recommendations:

"The Sub-Committee agrees that further efforts should be made to expand and update the information available to assess the extent to which the provisions of Article 1:4 are being implemented. The Sub-Committee considers that in order to assist the Textiles Committee in its work, members of the Arrangement should be requested to co-operate fully in keeping the information in COM.TEX/32 as complete and up-to-date as possible. The Sub-Committee also suggests that questionnaires should be sent to participating countries as early as possible and its next report should be submitted to the Textiles Committee by the end of March 1986.

The Sub-Committee is of the view that Questionnaires UNNUMBERED A AND B are sufficient for the purposes of seeking information from participating countries. However, for the sake of uniformity in the information to be provided, it is felt that certain clarification and explanation of some questions in the questionnaires would be helpful to the respondents. The Sub-Committee therefore requests its Technical Sub-Group to prepare such an explanatory note in time for the early distribution of the questionnaires."

2. In accordance with these recommendations, the Technical Sub-Group of the Sub-Committee on Adjustment met on 30 January 1985 and developed an explanatory note for the purpose of increasing the clarity of the questionnaires and securing greater uniformity in the presentation of the responses. The explanatory note is set out in Parts 1 to 3 of the attached document. Specific provisions relating to Questionnaire A are given in Part 1 and those relating to Questionnaire B in Part 2. General provisions applicable to both questionnaires have been developed and are contained in Part 3. For easy reference, the texts of both Questionnaires are attached as Annex A.

3. Participating countries are requested to make their information available to the secretariat at the earliest possible date and, in any event, not later than 31 May 1985.