

SENIOR OFFICIALS' GROUP

Record of Discussions

Note by the Secretariat

1. The Group of Senior Officials, established by the Decision of 2 October of the CONTRACTING PARTIES (L/5876), instructed the secretariat to issue summary records of the Group's discussions.

2. At the meeting of the Group on 12 November, the Chairman stated his understanding that the record would cover only substantive discussions, and noted that most of the Group's discussions after the meeting of 1 November had covered points of procedure.

3. These summary records are accordingly being issued by the secretariat under the symbol SR.SOG/- as follows:

SR.SOG/1	14 October	SR.SOG/7	30 October (first part)
SR.SOG/2	15 October	SR.SOG/8	30 October (second part)
SR.SOG/3	16 October	SR.SOG/9	31 October (first part)
SR.SOG/4	22 October	SR.SOG/10	31 October (second part)
SR.SOG/5	23 October (first part)	SR.SOG/11	1 November (first part)
SR.SOG/6	23 October (second part)	SR.SOG/12	1 November (second part)

Substantive points made at the meeting of 8 November will be included in SR.SOG/11.

4. During the discussions, a number of delegations referred to explanations of their positions given in written communications and statements¹ with regard to the proposed new round of multilateral trade negotiations. Reference was also made to relevant statements in the Council debates on 5-6 June and 17-19 July 1985 (C/M/190 and C/M/191, respectively) and in the special Session of the CONTRACTING PARTIES held on 30 September - 2 October 1985 (4SS/SR/1-5).

5. Some delegations stated in the Group that they had frequently refrained from intervening in the discussions because they felt that their positions had been adequately set out in the communications, statements and records referred to in paragraph 4 above, or had been expressed by another delegation, or because they had reserved their right to revert to some of these matters at a later stage in the preparatory process.

6. Two copies of these summary records will be issued to each contracting party. Further copies will be available on request.

¹These communications and statements are: Developing countries L/5647 and L/5744, 24 Developing countries L/5818 and Add.1, ASEAN countries L/5848, Australia L/5842, Austria L/5849, Brazil L/5852, Canada L/5834 and L/5836, Chile L/5850, EFTA countries L/5804, European Communities L/5835, Jamaica (informal paper circulated to the Group), Japan L/5833, Korea L/5851, New Zealand L/5831, Nordic countries L/5827, Switzerland L/5837 and L/5883 (originally issued as Spec(85)52), United States L/5838 and L/5846.

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

SR.SOG/10

22 November 1985

Special Distribution

SENIOR OFFICIALS' GROUP

Record of Discussions

Discussions on 31 October

The Chairman said that there were no more speakers on the subject of Services which represented the last point of the Ministerial Work Programme of 1982. However, in view of the submissions put forward by various delegations, and also of comments made during the Special Session and also in the light of the understanding concerning the continuing consideration of changes in the trading environment so as to ensure that GATT is responsive to these changes, delegations might wish to bring up some additional subjects.

The representative of Chile said that he would refer to a series of issues which had not yet been proposed for consideration in the Preparatory Committee, of the utmost importance for his delegation. First, State-trading enterprises. Article XVII of the General Agreement was concerned with State-trading enterprises, and required these to abide by the principle of non-discrimination in their imports and exports. In other words, such enterprises were obliged to import or export, buy or sell, taking into account only commercial considerations: price, quality, availability, marketability, transportation, etc. Similarly, these enterprises were required to afford adequate opportunity to the enterprises of other contracting parties to compete for participation in such purchases or sales. This provision was not being fully applied. Notifications were made, but there was no examination of developments, justification or possible liberalization. On the other hand, not everyone notified and there was no surveillance mechanism. Chile considered, therefore, that Article XVII should be the subject of analysis and improvement. The analysis should in the first place cover State-trading enterprises in countries having a centrally-planned economy. Developing countries did not have sufficient negotiating power to be able to sell their products in those countries, and the Preparatory Committee should envisage mechanisms guaranteeing access for products of developing countries to centralized markets. The analysis should also cover the situation of such enterprises in market economy countries which exported to centrally-planned economy countries under discriminatory agreements, and should likewise cover monopolistic marketing boards. This topic should be examined in depth in the Preparatory Committee, in order to seek mechanisms affording a negotiating balance for the developing countries and aimed at the improvement of Article XVII. Such enterprises constituted a non-tariff barrier to international trade and had negative effects for the export possibilities of developing countries. Second, the most-favoured-nation clause. Full and unrestricted application of the most-favoured-nation clause must be strengthened and broadened. To this end, there should be an interpretation of provisions such as those of Article XXIV which had covered agreements that did not entirely fulfil its requirements and had eroded the value of those clauses. Third, re-negotiation of concessions.

Article XXVIII of the General Agreement established an adequate mechanism to cover any modification of a schedule. Nevertheless, the abusive use of the paragraph 5 procedure had threatened the value of having a three-year period within which concessions were secure, without prejudice to the escape clause of Article XXVIII:4. The stability of the concessions was part of their value, and that stability should be restored in view of the evidence that many contracting parties had reserved their rights as a matter of course, thereby significantly limiting the usefulness of having three-year periods and making unnecessary the clause in Article XXVIII:4. In order to face this situation the following elements should be considered: any reservation must refer to specific products, properly identified; the period in which the reservation could be invoked should be limited; for each product the reasons for the reservation should be indicated; an understanding should be sought under which the total value of reservations invoked would not exceed a certain percentage (5 per cent) of total imports in a previous representative period. This would be without prejudice to the clause in Article XXVIII:4. Fourth, functioning of the system. The functioning of the GATT system and of all its component elements should be examined so as to ensure the necessary flexibility to adapt to new and changing circumstances. For example, delegations should consider whether there was any justification for keeping the Group of Eighteen in existence; even though it was a consultative body it lacked transparency, had not prevented important issues from being considered outside GATT, nor did it ensure that they were considered in GATT. The reasons for which the Group of Eighteen had originally been established had completely changed in nature. Delegations should also consider whether it was useful and necessary to maintain the Sub-Committee on Protective Measures in the light of its results and the existence of other mechanisms available within GATT, and the scant interest that the contracting parties had shown in this regard. Fifth, countertrade. The significant increase in countertrade made it necessary for the contracting parties to consider this issue because of its obvious impact on trade flows. In this respect the attention of the new round should focus on: confronting this type of trade, as to both its form and effects, inter alia, with Articles I, II and XVI of the General Agreement; ensuring the transparency of such arrangements; and establishing an adequate body to safeguard the rights of other contracting parties. Chile requested that all the issues be included in the agenda of the Preparatory Committee.

The Chairman said that the items proposed by Chile might be taken up one by one. He asked if there were any comments on the first point raised by the Chilean delegation, which referred to Article XVII.

The Hungarian delegation reacting to the proposal put forward by Chile, in connection with Article XVII, opposed any approach based, for example on account of planned economy as a basis for drawing up new conditions under the GATT. Hungary recalled that the GATT had been conceived for regulating trade between individual contracting parties with specific trade régimes. Therefore the GATT as such embraced contractual rights and obligations of individual contracting parties established on a country-by-country basis, on

the merits of individual cases. The Hungarian delegation stated that any generalized approach would be contrary to the legal system and the past and present practice of the contracting parties. In a larger context, the Hungarian delegation recalled that from the point of view of the GATT legal system the ownership of the means of production was irrelevant and what appeared to be relevant, was the rôle played by the various trade policy instruments and the capability to implement trade policy commitments.

The representative of Cuba wished to react to the comments made by the representative of Chile with respect to Article XVII. It was not right to say that the activities of State enterprises for foreign trade created non-tariff barriers to trade. These enterprises which had juridical, administrative and budgetary autonomy established their own policies independently of the State. In fact these enterprises promoted trade and economic co-operation with all countries on the basis of equality, respect and mutual benefit respecting the principle of non-discrimination. She suggested that the Preparatory Committee might analyse the activities of transnational corporations and their subsidiaries which dominated certain markets where a high degree of protectionism existed.

The representative of Czechoslovakia supported the statements made by Cuba and Hungary. The so-called centrally-planned economies were not a category which had been dealt with so far in the GATT and he opposed this categorization. He also opposed the inclusion of this item in the work of the Preparatory Committee. Whenever State-trading had been discussed, Czechoslovakia had always explained that State-trading organizations acted purely on the basis of economic considerations and there was not a single aspect of discrimination.

The Chairman said that if there were no further comments on Article XVII, the Group could now discuss the comments made on Article XXIV.

The representative of Japan said that his intervention would not be limited to Article XXIV. Japan supported the idea of the Chilean delegation that during a new round of negotiations the opportunity be given to review the operation of major Articles in the General Agreement. His delegation was particularly interested or concerned about the operation of Article XXIV because there was a tendency towards the proliferation of Article XXIV arrangements which might lead to regionalization. The operation and also the impact of the operation of certain major Articles had to be considered.

The representative of Korea supported the speakers who had expressed interest in the operation of Article XXIV. The GATT was being undermined if Article XXIV was not properly used and watched. His delegation would like to review the operation of this Article so that the open trading system under the m.f.n. principle prevailed over any regional arrangement.

The representative of the European Communities said that he could understand that during the course of negotiations one might try to settle accounts, but in the case of Article XXIV and even Article XVII this was perhaps a clumsy tactic. If one or several contracting parties did not feel satisfied with the application or implementation of these provisions there

had always been within the organization procedures which made it possible to deal with problems on a case-by-case basis, unless what delegations wanted was to re-negotiate the entire General Agreement including objectives. If the whole Agreement was re-negotiated everybody knew what would be lost but nobody could know what would be achieved. The Communities reserved their position in this connection and in due course would state their well-known views.

The Chairman said that there were no further comments on Article XXIV. The next proposal made by Chile referred to the re-negotiation of concessions, Article XXVIII. If there were no comments on this subject, the next matter referred to the functioning of the system.

The representative of Switzerland said that in addition to the items contained in the Work Programme the problems of Article XXVIII which set the rules governing tariff negotiations had been mentioned on several occasions. He would merely recall what had already been stated. The negotiating rights as defined in Article XXVIII dealt essentially with the principal supplier. In view of the changes which had taken place in the structure of the body of contracting parties and their respective participation in trade, these provisions, principles and the attribution of negotiating rights could not be today what had been considered when the Agreement was drafted. Without wishing to abandon the rights of the principal supplier the time had come to consider the possibility of complementing the provisions of Article XXVIII. To this effect, not only the principal supplier, that is the country which had the largest share of the market in the importing country, but also the country for which the export of the goods towards a given destination was the most important in terms of its own economy should be recognized direct negotiating rights. The negotiations should review the provisions of Article XXVIII with a view to re-establishing symmetry in the right to re-negotiate concessions taking into account the legitimate interests of contracting parties.

The representative of Korea said that his delegation also had interest in the operation of Article XXVIII. This Article favoured the original members and established large trading contracting parties and was disadvantageous or detrimental to new developing trading countries. It was difficult for newly-emerging traders to claim substantial interest under Article XXVIII. The operation of this Article should be reviewed at an appropriate juncture in the new round of negotiations.

The representative of New Zealand said that he would not refer to any of the Articles but simply to the functioning of the system. His country's submission on a new round of trade negotiations, document L/5831, and the opening remarks made at the Special Session of the CONTRACTING PARTIES, had referred to the need to strengthen the GATT's legal framework. The question of institutional arrangements that would assist governments in resisting protectionist pressures should be addressed. He would try to elaborate on this concept. The basic function of the GATT was its role as a support for governments seeking to do what was in the national interest when they were

faced by powerful sectoral pressure groups demanding special assistance. Recent experience, regrettably, had shown that the present arrangements were not tough enough. In this context the report "Trade Policies for a Better Future" had suggested some means of improving the mechanisms. For example, the devising of a national protection balance sheet specifying the costs of protection in a particular instance could be a means of mobilizing support against the pressure groups seeking special assistance. The establishment of a formal GATT Trade Policy Committee that would subject national policies to regular scrutiny for their trade impact would provide discipline through the exposure of trade restrictive measures. Another suggestion was to involve Ministers, perhaps in a Ministerial level body, more directly and more often in the work of the GATT. Once every five years was not sufficient to provide a much needed political dimension, drive and impetus. He recognized that these were basic and sensitive institutional issues which implied that GATT members would be willing to discipline themselves more strictly than they had done in the past. This was precisely the spirit which should animate a negotiating round. He suggested that the new round examine the establishment of a trade policy body aimed at making the GATT system work better and the question of more frequent Ministerial involvement in the GATT.

The representative of Australia said that a quick checklist showed that all the organizations engaged in work as important as GATT's such as IMF, World Bank, OECD, ILO, and the United Nations had regular meetings of Ministers. It was odd that GATT did not have a regular means by which the supreme policy-makers could come along and direct its affairs in a very personal way. In almost every country it was the politicians who had to take the decisions to impose the trade measures which frequently caused some domestic pain. The politicians who had to agree to lower tariffs and would be held accountable for the consequences of the decisions aimed at trade liberalization should have the opportunity to be involved frequently in the work of the GATT. Delegations though professionally dedicated to advance the work of the General Agreement within their government's instructions were only accountable to the extent directed by the system. When officials were not fully accountable strange things happened. People, for example, could start to play roles, particularly concerning the idea of negotiations. Consequently it was in the interest of the organization and its principles that there was a greater responsibility or involvement of the politicians who would take the decisions which lead the organization to better advance its goals. Therefore he supported wholeheartedly the proposal contained in the Report "Trade Policies for a Better Future" which would introduce more regular Ministerial involvement in the GATT. This organization should be advancing and improving the environment for the promotion of free trade. However, it had established over time a point of view that was no more than the least common denominator of views among the member States. In order to correct this situation the processes for surveillance should be developed to a much more mature and sophisticated point. At present the only point at which any surveillance of activities occurred was either through the rigours of a dispute settlement panel or more generally in the biannual meetings of the Council to review developments in the trading system. This organization

should have the capacity like that which existed elsewhere to require member States to be accountable for their actions which have an impact upon the trade interests of others. Member States should be obliged to account for any measures adopted which had an impact on the international trading environment. This process which had begun hesitantly in the review of the implementation of Part IV should be expanded so that all member States report on their trade and national economic policies and be assessed on the extent to which those policies measure up to the obligations taken under the General Agreement. These sorts of proposals should be main objectives in a new trade round.

The representative of Canada said that his delegation, like the Australian and New Zealand delegations, wished to identify another fundamental issue which was referred to in his country's submission, document L/5834. This issue was the critical need to strengthen the effectiveness of the rule of law and non-discrimination. The credibility of the GATT had been undermined by the proliferation of exceptions and deviations from basic GATT rules and by the strength and persistence of protectionist forces in major countries. There was also a perception not entirely unfounded that the GATT was not equally respected by all its members and that it was becoming a constraint to rather than a powerful instrument for trade liberalization. This challenge should be met in the next round by seriously reviewing such fundamental questions as non-discrimination, national treatment, security of market access and dispute settlement. This examination could also address the scope for greater Ministerial participation in and direction of GATT affairs. He recalled that the report "Trade Policies for a Better Future" recommended the establishment in GATT of a permanent Ministerial body which would meet periodically.

The representative of Colombia recalled a proposal made at the Council more than a year earlier which should be studied and accepted in the future negotiations. Colombia had said that there was an asymmetry in the review of measures and policies adopted by developing countries as compared to those of the developed countries. On the basis of Article XVIII of the General Agreement, the developing countries had the right to adopt trade measures for balance-of-payments reasons. These measures were perfectly legal and required two conditions. First, notification of the measures to GATT, and second, consultations in the Committee on Balance of Payments Restrictions. This Committee made an exhaustive examination not only of the measures adopted but also of the policies followed by the consulting countries in order to resolve their balance-of-payments problems. Therefore, the Committee acted as a kind of tribunal which approved or disapproved such measures. On the other hand, the developed countries with the pretext that imports were creating difficulties to their industries, adopted a series of measures usually not in conformity with the General Agreement known as the "grey area", and which were not even notified to GATT. It was indispensable to set up in GATT a body which would survey and review the policies and measures adopted by the developed countries. Such a review could not be carried out in the Committee on Balance of Payments Restrictions because it had a limited mandate and could not be carried out

in the Sub-Committee on Protective Measures because its reviews were based on notifications made by the developing countries themselves. The review could not take place in the framework of the Part IV consultations in the Committee on Trade and Development because those consultations had not given the results expected. In order to suppress this imbalance and strengthen the General Agreement, Colombia proposed to set up a new surveillance body. This proposal coincided with the suggestion contained in the eighth recommendation of the report "Trade Policies for a Better Future". He believed that institutional questions might also be envisaged when discussing the issue of modalities.

The representative of Korea said that his delegation would like to be associated with the views of the representatives of Australia, New Zealand, Canada and Colombia about improving the GATT system and the desirability of more frequent meetings at Ministerial level.

The representative of Uruguay said that his delegation shared fully Canada's position and was ready to work in that direction.

The representative of the Philippines recalled that at the first meeting of the Group his delegation had underscored the importance of implementing the standstill and rollback commitments and strengthening surveillance functions of GATT. Consequently, his delegation supported the suggestions and ideas of previous speakers on the need and desirability of Ministerial level meetings in GATT in this respect.

The representative of Japan said that his delegation was ready to study seriously the various proposals put forward by the previous speakers. In principle his delegation agreed that political involvement was quite useful and sometimes needed. However, he was not sure about the effectiveness of periodic Ministerial meetings which might just become routine affairs devoid of precise content. In the case of GATT, a very practical organization, Ministerial involvement was essential when a political decision was needed, for instance for the launching of a new round of negotiations.

The representative of Spain said that he agreed with the representative of Japan. When GATT had to take an import political decision such as the opening of a new round of negotiations, Ministers should be involved. However, holding Ministerial meetings on a periodic basis might lead to a routine which in fact inconvenienced the work of the organization.

The representative of the European Communities said that he had taken note of the various positions which had been expressed in the Group. These positions would be examined and the Community would negotiate.

The representative of the Philippines recalled that the question of the rôle of developing countries and the least-developed among them had been discussed both at the CONTRACTING PARTIES Special Session and the Senior Officials Group. The mid-term review of the Special Programme of Action for the least-developed countries had just been concluded in another forum which also dealt with trade and development. In this connection he had some

questions. Was there no relationship between GATT and UNCTAD? Were they not to a certain extent concerned with the same area of activity? Were not the members of the CONTRACTING PARTIES also in UNCTAD? In hearing the advocacy for greater Ministerial involvement in GATT, he had recalled that many past Presidents of the Board of UNCTAD had presided in frustration over meetings trying to organize a Ministerial meeting. If not proper it would be at least desirable that GATT establish some regular mechanisms of contact and consultation with UNCTAD. This could perhaps enable both organizations to synchronize their activities and save time, energy and resources.

With respect to the specific suggestion that GATT should meet periodically at Ministerial level, the representative of India said that perhaps formal solutions would not lead the GATT very far. What was necessary was to address issues of substance. This point had been made in the Consultative Group of Eighteen and in other fora in GATT. He did not under-estimate the importance or seriousness of the suggestion made, but was inclined to agree to some extent with the representative of Japan. GATT should take a practical look at this issue and maintain the practical and pragmatic nature of the institution. A formalistic approach might not be as productive as it might seem to the outsider's view reflected in the report "Trade Policies for a Better Future".

The representative of Brazil said that his delegation which supported the preservation and strengthening of the trading system was in principle in favour of any initiative which might lead to an improvement of the procedures. But on this question, he agreed with the representative of Japan because this matter should be seen in light of the issues and the need to have decisions at the political level and not as a routine and mechanical approach. This matter should be examined more carefully. This position was in line with the position taken by Brazil in the Board of UNCTAD concerning the need to be careful about having too many meetings at Ministerial level in that institution.

The representative of the United States said that his delegation supported the views of Brazil and India in this respect. Obviously holding high level meetings was no substitute for moving the system forward. It could, from time to time, be helpful and assist in the process, but it was no substitute for the hard work necessary between meetings. He could only think of one Ministerial meeting that was essential and that would be one next year.

The representative of Egypt said that lessons should be drawn from what was going on outside the GATT. He would encourage the idea of having close contacts between the two organizations that served the purpose of development in trade in general. With regard to the proposal to have periodical Ministerial meetings, he agreed with the views of the representative of Japan on the need to avoid a formalistic approach to this question. Contracting parties should consider and decide the question of holding a Ministerial meeting whenever such a meeting appeared to be necessary. He recalled that GATT was a contract and a Ministerial meeting

required substantial preparation and precise knowledge of what the Ministers would have to decide. For example, to meet in GATT to discuss a new round, or to make a declaration in regard to a new round on trade in goods, Ministers would be available. Ministers were not available to discuss something else.

The representative of Australia noted that there appeared to be two points of view expressed on the issue of greater Ministerial involvement in the GATT. One seemed to be enthusiasm and the other caution. He hoped that the caution was rooted in concern about not upsetting the arrangements of the GATT, rather than the ease of avoiding what was a difficult issue to address. The way to have Ministerial involvement in the GATT would not be to have regular meetings of the Consultative Group of Eighteen at Ministerial level, or to have regular meetings of the GATT Council at Ministerial level, or to have regular meetings of the CONTRACTING PARTIES at Ministerial level. Nothing would better guarantee never to get Ministers back in GATT. Evidently Ministers should not be involved at meetings at which they would not address anything but matters of important substance. Indeed part of the problem with Ministerial attendance at other international bodies was the fact that the Ministers found it a waste of time to come into a meeting, deliver their statement, and leave. What his delegation had in mind was to examine how to succeed in getting constructive Ministerial involvement in this organization. He hoped to talk with other interested delegations on this matter and present to the organization at the right time a proposal which would ensure constructive, not wasteful, Ministerial involvement.

The representative of New Zealand agreed with Australia's comments about the need to ensure constructive Ministerial involvement in the work of GATT.

The Chairman recalled that the last item raised by the delegation of Chile was the matter of compensatory trade. As there were no further comments on the proposals made by Chile, he asked if delegations had any other comments to make.

The representative of the United States said that he would like to discuss two other items. One of them was high technology which in Spec(85)45 had been somehow merged with investment. At this point he would like to make a statement with regard to investment. One of the major problems facing the international economy for the past few years and for the foreseeable future was the large debt and debt-servicing burden of developing countries. This was a major concern of the international financial and trading system. It had been a major topic of discussion at the recent meeting of the International Monetary Fund and the World Bank in Seoul. Many contracting parties had pointed out the need for increased trade as a factor in alleviating the debt burden. They and others had also pointed out the role that increased foreign direct investment and other financial flows played in improving the debt situation. An anomaly of the present situation was that investment flows rather than flowing to

developing countries to assist in their long-term development were flowing in massive sums to the United States. Obviously there were a number of economic reasons for this. Without intending to open a theoretical debate, he wanted to draw the attention of the contracting parties to the close relationship between trade and investment and the need of the contracting parties to look into this matter and as appropriate seek remedies in order to contribute to the process of improving the debt situation. In the first instance investment created production and trading opportunities. Increased investment meant increased trade. As with trade, if restrictions were placed on investment flows they tended to be reduced just as protectionist import policies led to reduced trade. Investment policies in many countries served a number of economic, political and social policy objectives which had to be taken into account in formulating an overall policy. In order to design an improved trading system that would contribute to resolving the debt situation and improve investment flows it appeared necessary to examine the relationship between investment and trade and to attempt to remove distortions that hindered the overall objectives. For example, a couple of years ago a GATT panel had recognized that a requirement that certain companies investing in Canada undertake to purchase their inputs from domestic sources was inconsistent with Canada's GATT commitments and that such requirements distorted trade. Studies showed that such requirements also were likely to reduce investment flows especially to developing countries. There were a number of such trade-distorting and investment-reducing obstacles. In effect such requirements could be seen as a type of non-tariff barrier. If the GATT was to contribute to improving the debt burden of developing countries it seemed imperative to examine these investment-related trade problems to see if there was a basis for joint action. For this reason the United States had requested that this item be considered by the Senior Officials Group for inclusion in a future round. The United States specifically proposed that GATT initiate a work programme on trade-related investment measures with the object of establishing a framework of principles and rules. Specifically such work programme would have two parts, one addressing the matter of trade-related performance requirements and two, examining and addressing the broader foreign direct investment measures such as barriers to investment and discriminatory measures.

The representative of the European Communities said that the United States had the sovereign right to present their point of view and highlight the close link between investment and trade. However, drawing the conclusion that investments should therefore be included in the new round of negotiations was going a little far. At this time he could not take such a step. The position of the Communities was that determined, concerted action was required in order to improve the functioning of the international monetary system and in order to increase the flow of financial and other resources towards the developing countries but the Communities were not asking that this should be done in the framework of the new round. The Communities believed that results in the monetary and financial fields should be sought in parallel to the results that could be achieved in the trade sector. The Communities had motivations similar to those of the United States but drew a different conclusion. The Communities felt that solutions to the imbalances stemming from the monetary and financial area could not be found through trade negotiations.

The representative of India pointed out that this subject had nothing to do with GATT.

The representative of Brazil recalled the text of the Decision adopted at the Special Session of the CONTRACTING PARTIES on 2 October. In the discussions so far the Group had followed the Decision taking up all items as listed in the Ministerial Declaration and Work Programme. The Decision adopted at the Special Session regarding the agenda for the Senior Officials Group meeting had been based on the understanding that delegations would have an occasion to present views on questions contained in their respective submissions which were not included in the GATT Work Programme under the part of the Decision which spelled out paragraph 7(ix) of the 1982 Ministerial Declaration. The understanding of course excluded the possibility of any attempt by the Senior Officials Group to come to conclusions or recommendations on such questions. His delegation considered that the question of investment as raised by one contracting party was completely outside the jurisdiction of the General Agreement and could not be considered as a subject matter for any new round of multilateral trade negotiations in the framework of GATT. Investment was in fact a question of a purely economic nature in the area of the flow of capital which could not be seen as covered by the terms of paragraph 7(ix) of the 1982 Ministerial Declaration which mentioned only changes in the trading environment to which GATT might be responsive. His delegation would counsel some caution in trying to establish the relationship between the question of trade and the question of investment because complete trade liberalization might not promote better opportunities for foreign direct investment. Moreover, assuring foreign direct investment complete freedom of access might in many occasions reduce the opportunities for trade. This was a very complex relationship and not a matter to be discussed in GATT. Concerning the relationship between the question of foreign direct investment and the benefits it might bring for indebted countries, he said that risk capital - and foreign direct investment was one form of risk capital - was not neutral in terms of effects on the balance-of-payments of any country receiving it. It had a very clear impact in the long term because profits and eventually capital had to be remitted abroad. Foreign direct investment was therefore not absolutely different in nature from loan capital. In light of the agreements which had made possible the consensus for the setting-up of the Senior Officials Group, it was clear that the report of the Group could at best record the views of delegations without any attempt to draw conclusions or to issue recommendations.

The representative of Switzerland said that his delegation understood the motivations of the United States because it shared to a large extent the analysis on the importance of financial flows in respect of trade. The approach of the European Communities concerning the treatment of financial flows and monetary issues was realistic. However, the Communities' approach was partially unsatisfactory insofar as parallel action would not take into account the de facto links between the financial sector and the trade sector. In the paper circulated at the beginning of the meeting of the Senior Officials Group his delegation had tried to solve the conceptual

difficulties of this question by suggesting that this would be an activity of GATT as such. The institution as such would express its views on matters such as the macro-economic issues, monetary issues and financial matters. His delegation would be willing to discuss these matters further.

The representative of Yugoslavia said that his delegation was of the opinion that issues such as high technology and investments were outside the GATT jurisdiction and, therefore, could not be the subject of negotiations within the GATT.

The representative of Egypt said that his delegation was of the view that the subject of investments was not within the context of GATT, would not be a subject matter in the new round and would not be eligible for inclusion in the new preparatory committee of the new round.

The representative of Japan said that his country's submission had included the question of high technology as one of the subjects of the new round of negotiations. In the long term this sector was full of possibilities and care should be applied not to raise or keep trade barriers in this field. Before entering the negotiating stage further intensive studies would be necessary.

The representative of the United States said that he was personally disappointed with the responses because this was an opportunity that should be examined carefully, be looked at in the overall perspective and not just what was going on in the trade field. Things were moving now. In the financial area there had been some progress. The United States was taking a very hard look at how it should proceed into the future and the discussion here would not be helpful. Even though the Group would not draw conclusions at this particular session on this particular issue, it was quite clear that at the Senior Officials Group any country had the right to raise any particular subject of interest to it without pre-conditions. The question of investment had been included in the United States submission, document L/5846 of 12 July 1985. In the light of some novel interpretations with regard to investment in the GATT, he wondered how the Panel on the Administration of Canada's Foreign Investment Review Act had concluded that the Canadian practices were not in conformity with the GATT. From his standpoint the trade-related aspects of investment were inside the GATT. He would be prepared to discuss this particular subject with anyone interested to help explain his country's position and hopefully get a better understanding of their position. He saw this as an opportunity for development which should not be rejected out of hand.

The representative of the European Communities said that the Communities' position was a message of caution. Adding the words "trade related" was not a sufficient basis for the inclusion of a topic in the multilateral trade negotiations. The Communities recognized that something had to be done in this area. Nobody could keep GATT from studying the consequences on trade but to study was not to negotiate. He was worried by the reference to inclusion in the negotiations. The Communities' message

was that outside of GATT there were institutions such as the International Monetary Fund and the World Bank which were showing great interest in trade policy which was not in their primary field of operation; they might perhaps be asked to undertake parallel efforts in the investment sector, which they were better equipped to deal with.

The representative of Canada confirmed the understanding that any delegation had the right to raise any issue in this Group without pre-conditions. Canada accepted the United States right to raise and discuss this issue in the Group. He added that the report of the Panel on the Administration of Canada's Foreign Investment Review Act had certain nuances. The Panel had found certain purchase undertakings favouring Canadian suppliers inconsistent with GATT obligations, other undertakings such as those relating to employment and research and development were considered by the Panel to be outside the scope of the General Agreement, and undertakings to export a certain quantity or proportion of products were found not to be inconsistent with Canada's GATT obligations.

The Chairman asked if any delegations would like to raise any other subjects. As this was not the case, he said that the Group might take up the relationship between the proposed negotiations and developments in the monetary and financial area. This issue did not perhaps fit neatly into the discussion on either subject matter or modalities of the negotiations, however, some of the statements made in connection with the fluctuation of exchange rates had touched upon this question.

The representative of Brazil said that as stated on many occasions in sessions of the CONTRACTING PARTIES, as well as in Council meetings, the question of trade liberalization both in terms of stopping and reverting protectionism and of enlarging access to markets by new trade negotiations was a subject of utmost importance for Brazil. His country was interested in promoting economic growth on the basis of an economy open to foreign trade, and needed to generate trade surpluses in a very large magnitude for the servicing of the external debt which consumed only in interest payments around 40 per cent of export earnings. External indebtedness was for Brazil a matter of the highest importance. The solution to this problem required intensified international co-operation in the fields of money and finance, in addition to trade. The effort to adjust should not be a responsibility only for the indebted countries, but also for the creditor nations. The symmetry in obligations should be sought as a matter of fairness as well as of common interest. Trade liberalization - a very important end in itself - could only be a credible and effective programme of action through individual and joint initiatives, if an improvement was sought in the overall world economic environment through measures to be adopted both at the national and the international level. For this reason, for a decision to be possible on the setting up of a Preparatory Committee for the proposed new round of multilateral trade negotiations, a firm and credible individual commitment by creditor developed contracting parties should be undertaken at the highest political level to accept to engage in inter-governmental negotiations on the settlement of the debt problems of the developing countries. For a decision to be possible on the launching of the proposed

new round of multilateral trade negotiations, a firm and credible individual commitment should be undertaken by all developed contracting parties at the highest political level to pursue convergent macroeconomic policies conducive to non-inflationary growth and based on a strict fiscal discipline and to start a process to review and reform the international financial and monetary system to be conducted in appropriate fora to be agreed upon by all interested countries. To enable a correct evaluation of the value of concessions exchanged in the proposed new round of multilateral trade negotiations, a decision should be taken to pursue in GATT an in-depth examination of all the effects of exchange rate fluctuations on international trade.

The representative of Uruguay recalled that in a previous intervention his delegation had stressed the importance of this subject. The foreign debt of the developing countries represented a critical element of the international economic situation which had repercussions on international financial relations as well as on trade relations. This problem could only be solved through concerted action of the debtors and the creditors. It was necessary to have a significant increase in the export possibilities of developing countries in order that they may cope with the foreign indebtedness. In this respect a firm and absolute commitment was needed in the possible future round of negotiations. The round of negotiations should offer developing countries the ways and means of achieving new and substantial benefits and access to markets to enable them to have the foreign exchange necessary to comply their external debt obligations whilst maintaining internal rates of growth in conformity with their development requirements. The resolution of the external indebtedness problem had to be accompanied by an adequate domestic growth and, therefore, exports and foreign trade were key elements in this equation. During previous rounds of negotiations in GATT the subject of foreign indebtedness at the present level did not exist and had received practically no attention in the preparation of negotiations. Now the foreign debt situation had high priority in his country's foreign policy. The new round of negotiations should offer significant trade liberalization and enable Uruguay to increase exports substantially in order to face its foreign debt obligations. There was no other practical means at his country's disposal to comply the foreign exchange commitments. This element would permeate Uruguay's attitude with respect to everything concerning the new round of negotiations.

The representative of Argentina recalled that the contracting parties had decided at Ministerial level in 1982 that the Director-General of GATT undertake consultations with the International Monetary Fund on the possibility of a study of the effect of erratic fluctuations in exchange rates on international trade. This had been a first step to link the financial and monetary problems with trade in the interest of developing countries. International monetary and financial problems had been increasing over the last years and had been recognized by all monetary authorities including those in the countries which were against intervention in the field of exchange rates. There had been an evolution of the situation. The recent meeting of the five most powerful financial countries

had resulted in a substantial re-adjustment of the parity of the United States dollar. However, there were a series of reforms still to be made. All of these elements were linked to the question of the indebtedness of the developing countries. The situation was extremely complex and characterized by a substantial decrease of the financial flows towards the developing countries as had been shown by a study of the Bank for International Settlements. Rates of interest in the international financial markets were still very high and there was not sufficient international liquidity. He would repeat the appeal made by the Argentinian Minister of Economy to the more powerful developed countries to maintain economic and financial policies compatible with the global economic situation. This subject should be dealt with in the manner suggested in document L/5818. A process to review and reform the international financial and monetary system should be conducted in appropriate fora and GATT should examine the effects of exchange rates fluctuations on international trade. His delegation supported the views put forward by Brazil and Uruguay in this connection and reserved the right to come back to the question of the special situation of indebted countries under the General Agreement in order to discuss the appropriate course of action.

The representative of Norway said that the Nordic countries recognized that the excessive debt burden on many developing countries represented a most serious problem facing the world financial system today. Imbalances and instability in the monetary field had likewise demonstrated profound impact on trade flows and on the functioning of the multilateral trading system. These were visible examples of the interdependence between the international trade and financial systems. There was a need for concerted multilaterally developed policies in the respective fields. In this context GATT's primary rôle lied in creating a stable and liberal trading environment, securing and expanding market access. Efforts to this end, such as a new round of multilateral trade negotiations would be heavily influenced by developments in the monetary and financial areas. The Nordic countries recognized the interdependence and the need for parallel action in this context. However, the new round of trade negotiations should not be made conditional upon progress in the latter areas. Nor should work in other appropriate fora be conditional upon GATT's negotiations on trade.

The representative of Peru said that Peru belonged to the region of the world affected by the full impact of all aspects of the international crises: foreign indebtedness, protectionism, deteriorated terms of trade, reduced financial flows, high interest rates. All these factors were very serious impediments to the development of her country. As a consequence the level of the standard of living had been going down with destabilizing social and political effects. The international financial situation was a permanent crisis for the indebted developing countries. It was therefore necessary to try to find a solution. She recalled tht the representative of the United States had said that GATT must help to contribute to the improvement of the situation of indebtedness. A solution could only be found through a concerted action among the indebted countries and the creditor countries. Efforts had to be made to increase the exports of the developing countries improving their access to markets in order to alleviate the service of their debt and improve their level of development and the

situation of their economies. As a solution Peru had already proposed at the Special Session of the CONTRACTING PARTIES and at the meeting of the Senior Officials Group, the establishment of special emergency treatment in favour of the indebted developing countries; if not, the new round would be without interest for developing countries. The proposed new round of negotiations should ensure additional trade benefits for the indebted developing countries. A more active participation in trade was the only way to service the debt and enter into a new stage of development. Her delegation shared the views stated by developing countries in document L/5818 to start a parallel process to review and reform the international financial and monetary system to be conducted in the appropriate fora and to examine in GATT the effects which erratic fluctuations of exchange rates had on international trade.

The representative of Japan said that nobody would deny the intimate and complex relationship between trade and the monetary and financial situation. Therefore a solution to the debt problem should be sought on all fronts. One of the most important objectives of the new round would be to help the development of the developing countries particularly in view of the debt situation. Recently the Interim Committee of the IMF had exchanged views on a report on the international monetary system presented by the Group of Ten and Group of Twenty-four. The Interim Committee at Finance Ministers levels had noted with satisfaction the positive development of discussions within GATT with a view to opening a new trade round. GATT should respond to the concerns of the Ministers of Finance.

The representative of India said that his delegation recognized the linkage between development, trade, money and finance which had been emphasized by previous speakers. India's position was clearly stated in document L/5818. He reiterated that solutions to the imbalances whose origin lay in the monetary and financial areas could not be found in trade negotiations. Determined action was required in the monetary and financial fields. Therefore he supported the plea that commitments should be undertaken before the proposed multilateral trade negotiations were launched to start a parallel process to review and reform the international financial and monetary system in the appropriate fora which would have to be agreed upon by all the interested countries, and also to examine in depth in GATT all the effects of exchange rate fluctuations on international trade.

The representative of Egypt reiterated the position stated earlier. He shared the views expressed by developing countries' speakers with regard to this subject and endorsed the statement by the developing countries contained in document L/5818.

The Chairman said that as there were no further speakers on this subject he would conclude the discussion. At the following meeting the Group would examine the question of modalities for the proposed negotiations.