GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

C/M/216
26 November 1987
Limited Distribution

MINUTES OF MEETING

Held in the Centre William Rappard on 11 November 1987

Chairman: Mr. A. Oxley (Australia)

Review of developments in the trading system
(Special meeting on Notification, Consultation, Dispute Settlement and Surveillance)

The Chairman recalled that the mandate and function of the biannual special Council meetings was to review developments in trade policy, on the basis of the 1979 Understanding regarding Notification, Consultation, Dispute Settlement and Surveillance (BISD 26S/210), and of paragraph 7(i) of the 1982 Ministerial Declaration (BISD 29S/9).

He drew attention to the Secretariat document "Developments in the Trading System, April 1987-September 1987" (C/W/528 and Add.1), drawn on notifications by contracting parties and on other relevant information. The Secretariat had continued to rely partly on unofficial information, since official notifications had been inadequate to provide the basis for a well structured and informed review; when doing so, it had checked this unofficial information with the delegations concerned. The Secretariat had drawn up C/W/528 largely along the lines followed for the documents used at the past few special Council meetings. He emphasized that the basic purpose of the special Council meetings was not to perfect the Secretariat's document, but to monitor implementation of paragraph 7(i) of the 1982 Ministerial Declaration, and to engage in a substantive review of recent developments in the trading system. The review should enable the Council to focus on those aspects of current developments in the trade policy environment that were of particular relevance.

He suggested that, in the light of the material provided in the Secretariat document, including its overview section, representatives might usefully focus their remarks on two main themes: the first theme actually comprised three interrelated points: (a) what was the rôle of trade policy and of the Uruguay Round in the present situation of financial and monetary upheaval?; (b) to what extent were governments using the Uruguay Round process to deal with their current difficulties in the field of trade in such a way as to achieve long-term solutions?; (c) what could governments do to reduce the uncertainties created by trade policies? The second theme would be to ask what contribution GATT was making over this period to help resolve bilateral conflicts and tensions between governments, and how this contribution could be strengthened? In suggesting these themes, it was not his intention to limit the debate only to those particular subjects, as

there might be other issues arising from the Secretariat document which delegations might wish to address. He hoped that, by focusing on a few central questions, it would be possible to arrive at a better common appreciation of the way trade policies were functioning in the global economic context.

Many representatives expressed appreciation for C/W/528 and said it represented a further step in the consistent improvement of the Secretariat's documentation for these meetings. A few representatives pointed to some factual inaccuracies in the documentation.

The representative of the European Communities said that his delegation was very pleased with the Chairman's presentation, which attempted to structure the debate in the special Council. The Community saw the presentation as evidence of the Council's work moving progressively towards a collective assessment of the situation in the field of trade policy. In so doing, the Community wanted to emphasize its attachment to the special Council mechanism, and the ever greater importance that should be given to its work.

His delegation had found the background document (C/W/528) extremely valuable, and the Secretariat's contribution was constantly improving. The overview presented in paragaraphs 7-21 would gain by adding mention of compensatory trade, bilateral trade agreements and other important matters such as preshipment inspection. Concerning paragraphs 8 and 9, the Community thought that the Secretariat's presentation should have been somewhat more nuanced. As it stood, it represented a somewhat narrow view of the situation in so far as liberalized markets with increasingly lower tariffs could not be placed on the same operational level as more closed markets, or compared with others that appeared to be open but were in fact protected by invisible barriers.

The Community had questions about the causality relationship in contemporary economic life, which consisted of an inextricable entanglement of causes and effects that were extremely difficult to grasp. He would not hesitate to say that the breakdown in the balance of two-way trade, which had allowed competition to be concentrated in markets that were opened too wide, was at the origin of the disparity and of the increase in defensive trade measures. Tensions would be defused if there were more complete participation by all contracting parties in GATT rights and obligations.

Concerning paragraph 10, the autonomous character of the Generalized System of Preferences risked being weakened by "extra-tariff-preference" links. Great prudence was needed when "extra-GSP" links were introduced, as these would ultimately put the System itself in jeopardy.

Paragraph 14 illustrated his earlier call for a more complete participation by contracting parties in the obligations of the GATT system. The Secretariat had mentioned the imbalances in bilateral trade, emphasizing the threats of unilateral reprisal measures being made by major

trading powers. These threats, or attempted threats, were a signal of breakdown in the balance of the multilateral system, and especially of the lack of effective remedies to bring about a real solution to the contagious imbalances in specific parts of the system. Perhaps an answer might come from the Uruguay Round; in any case, one should not underestimate the motivations or the malaise at the origin of this situation.

Concerning paragraph 16, where it was said that the governments' appreciation of the need to look for long-term solutions had been fostered to a certain extent by their budgetary burdens, his delegation wanted to add another element: the phenomenon of deregulation.

Turning to the Chairman's two suggested themes, he asked what were the relationships between trade policy and the financial and monetary environment in the light of the present upheaval in the financial and monetary markets. These markets were a privileged watchtower of economic life, reflecting elements both of expectation and, of course, speculation. They were increasingly providing the image of a distorting and implacable mirror of economic life, but with an element of truth nevertheless, in that they portrayed governments' incapacity to control not only confidence or expectations -- let alone speculation -- but in the end, economic life itself. The integration of economies, now irreversible, had become such that, without collective management, it was impossible to maintain order and stability, and it would hardly be possible to ensure optimal conditions for an orderly development of the economies of the world.

The distorting mirror had highlighted the limited impact of trade policies. Paradoxically, these policies were becoming increasingly prominent as they amplifed the reactions of confidence, anticipation or speculation in the financial and monetary markets. The multilateral trading system had, despite all this, stood up well against the storms, perhaps because of the launching of the Uruguay Round negotiations. The Round was a reference point and a stabilizing factor to which one could turn in the upheaval of financial and monetary markets. But how had the multilateral trading system taken on this stabilizing rôle? There had been initiated in 1982 a major exercise to increase knowledge, based on transparency, which had culminated in 1986 at Punta del Este. If there were more numerous trade conflicts, they had probably stemmed from false perceptions and over-expectations of the multilateral trading system. On the other hand, tensions had the merit of forcing governments to exercise more discipline and more prudence in their actions. The tensions had had a dissuasive effect in the conduct of trade policies, both at the domestic and multilateral levels.

He asked apart from the round now underway what was to be done to allow the system to earn its laurels. He considered that the future of the system was increasingly in people's thoughts. In this connection he quoted the paragraph on the debt and on exchange rate fluctuations in Chapter 1 of International Trade 1986/1987 (GATT/1419); he was struck by the change in the Secretariat's thinking.

He illustrated the apparent impact of exchange rate fluctuations on trade and trade policies by referring to changes over recent years in the Swiss franc/US dollar exchange rates. Such fluctuations affected importers, exporters, investors and borrowers; they affected as well the foreign trade of countries and, naturally, their trade policies. The monetary markets, or their reactions, currently amplified in a disproportionate manner any official US declaration, albeit innocuous, on money. The markets were distorting and magnifying mirrors of implacable truth, but they were not always right. The swings generally went beyond what was required to adjust the rates to the economic realities, and this situation could not persist any longer; otherwise it would damage, by rebound, the multilateral trading system. What were the remedies, and what lessons could be drawn from the history of international monetary relations?

Starting with the gold-standard, he noted that at that time the basis for exchange rate stability had been ensured by alignments with the Bank of England's decisions; i.e., there was implicit coordination of economic policies under the United Kingdom's aegis. After 1918, there had followed the gold exchange standard, which had collapsed in 1936 because of its lack of capacity to control the exchange rate manipulations of governments acting only in their own interest. Then came the Bretton Woods Agreement in 1944, which had been effectively implemented in 1958. The dollar had become a reserve and intervention currency for the central banks, which implied a US balance-of-payments deficit. The increasing dollar reserves of the central banks, which were calling for more and more gold from the United States, were depleting the latter's gold supply. The result was that on 15 August 1971, the dollar was declared non-convertible. After various ineffective attempts to keep exchange rates fixed, on 19 March 1973, floating exchange rates became the rule.

That was the current situation. Presently, three approaches could be seen. The first advocated a return to fixed parities -- this would not lead far. The second aimed at the international coordination of economic policies, but exchange rate stability could not be achieved as long as each government determined its own policy and actions without considering what other governments were doing and without taking into account the impact of its own policy on the rest of the world. The third approach attempted to facilitate this necessary coordination by introducing constraints through the establishment of target or reference zones -- the IMF would have a central rôle to play in such a framework.

The aim would not be to ensure a strict current account equilibrium for each country. Current acccount disequilibria were perfectly justified, from an economic point of view, as long as capital-importers made productive use of imported capital and excess savings did not result from a restrictive policy and particularly from an insufficient openness of the domestic market.

These were approaches for attempting to remedy the monetary instability which was eating away at the multilateral trading system. They amply showed the need for collective management, albeit with differentiated and graduated responsibilities. The integration and interdependence of the economies were now irreversible and were such that governments were condemned, willy nilly, to progress in the direction of global cooperation.

Trade policy was in the process of acquiring, in a reverse fashion, its rightful place. It was now for it to conquer the place that should be its own in the new world economic order. Without trade policy, there would be no viable economic policy, either on a collective level or on a national level. He urged the re-establishment and strengthening of the multilateral trading system as a basic stabilizing element in international economic relations. That was the Community's response to the disorders for which trade policy was not responsible.

The representative of Jamaica expressed appreciation for the increasingly good quality of the background document, but said that paragraph 328 of C/W/528 did not adequately reflect what had been agreed at UNCTAD VII. A case-by-case approach had not been agreed for the debt problem, but rather a fundamental debt relief strategy based on growth and development.

Jamaica was also concerned about the impact of the falling US dollar on GATT. Because the Jamaican dollar was pegged to the US dollar, the minimum contribution to the GATT budget would involve a substantial leap in terms of Jamaica's local currency. That contrasted with the substantial savings for hard-currency countries in Europe. This should be borne in mind when discussing the issue of minimum contributions, especially by those who advocated no change.

He drew attention to the fact that the coverage of the Secretariat's background document went beyond the contracting parties; it reported on trade policy development relating to non-contracting parties and dealt with issues that went beyond the traditional scope of GATT, e.g., countertrade and so-called grey-area measures. He had been struck by the section on agriculture (pages 106-107) and its footnote 7. It would have been useful and fully justified to list the 42 agreements referred to therein.

He referred to the Chairman's and the Community's comments on trade policies in the current situation, to the securities markets which, he thought, had become overpriced and had dramatically corrected themselves, and to the monetary and foreign exchange markets. When the securities markets had collapsed, the response had been not to tighten liquidity, but rather to ease it so as to give the operators room to cope with adjustments. This made for an interesting comparison with action to deal with the debt situation. It seemed that over the last few years, when, faced with a need for rather sharp adjustments, the developing countries had requested the necessary liquidity, this had been denied to them and they had met with a continuation of tight policy and non-injection of

liquidity. The latter could have been provided through Special Drawing Rights. There lay an asymmetry: the developing countries facing debt problems were being denied much needed breathing space, while this breathing space had been granted to the market operators.

Another point related to interest rates. It had been repeatedly argued that adjustment of the international interest rates was needed to help deal with the debt problem; this had been denied on the ground that the markets alone were fixing interest rates. Even recently at UNCTAD VII, this argument had been put forward, but now it was seen that concerted action by central bankers and by finance ministers could adjust interest rates so as to give some relief to operators and to stimulate capital flows. His authorities relied more on market signals and less on government intervention, but knew that markets were not perfect, and policy action might be needed to restore market conditions. Looking at trade policies in the present situation, one saw the necessity to draw lessons from how governments responded to crises when it was felt that the threat of recession was more important than that of inflation. Paradoxically, the developing countries had lived through recessionary conditions for their economies for many years but had been denied the liquidity because it was felt that it would be inflationary.

Proposals for more surveillance in GATT had been made by some delegations in the Uruguay Round. He asked what Ministers would have to say if they were meeting today instead of in 1986. He hoped that the delegations which had proposed that trade ministers meet to oversee trade policies would provide some response to this question.

He believed that in the present situation, trade policies should be directed at structural adjustment at the micro-economic level, which meant the firm, the part of the industry or the sector. He recalled that in 1978-1979, Jamaica had proposed in the Consultative Group of Eighteen a code on structural adjustment which would have focused on the apparent malfunctioning of the markets in certain sectors where structural adjustment had been inhibited by protectionist measures.

The representative of India wondered if the present review of recent developments in the trading system did not run the danger of becoming a routine fulfillment of a routine function. This was not a criticism of its preparation, but rather in terms of the time available for discussion. While the Secretariat document provided a useful basis and tool, he felt that the review of recent developments should be put into a wider context. It was really the inter-relationship between trade, finance and monetary issues that needed greater attention. That, of course, implied an extension of the Council's jurisdiction.

He also drew attention to commodities prices and to the way markets were functioning, as well as to the question of regional or bilateral agreements. With regard to commodities, there had been references in C/W/528, inter alia, to agriculture and petroleum; he thought that the

approach could have been a little more comprehensive so as to provide a more consistent analysis of the commodity markets For developing countries, it would be both relevant and useful to focus on developments in that particular field. He expressed concern that the envisaged collective assessment was missing an analysis of how regional and bilateral arrangements affected the future development of the multilateral trading system . It was not at all clear, for instance, how the work being done in the Uruguay Round would affect this aspect; perhaps this deserved more attention, as it was likely to have more effect than the review being done in the special Council.

As to the interdependence of the issues, he referred to paragraph 328 dealing with the results of UNCTAD VII. He found the placement somewhat strange under section VIII, "Other Policy Developments". All of those who had participated in that Conference had come to very positive conclusions which would have important effects on the future of the trading system. For instance, it had been found desirable to set up a mechanism at the national level to monitor developments in the trading system. This might have a bearing on the future of the trading system. Another issue was linkages; there was agreement that concessions in one area should not be sought for concessions in another, yet there were national legislations where such linkages were being made. Another noteworthy development was the agreement that there should be a removal of discriminatory restraints. His delegation was concerned by the contrast between the large measure of agreement in many international fora to improve the trading system and the disturbing developments taking place in the real world. For instance, India wanted to know the meaning and significance of the reference in paragraph 360 about there having been suggested the possibility of working out a steel agreement under GATT. One important point, on which some kind of consensus had emerged in UNCTAD, was the concept of interdependence. His delegation was interested to know how the developing countries would be integrated in the future trading system. It was perhaps more important first to preserve the integrity of the system and to strengthen it. In conclusion, he suggested that there should be more time devoted to other trade policy developments in the context of the Council's review.

The representative of Japan said that his delegation had always taken an active part in the special Council meetings and fully supported the Chairman's initiative to improve the efficiency of the review by way of focusing deliberation on certain issues with which all participants were currently confronted. A brief summary of the discussion would also be useful to make the Council's work known to the outside world.

Concerning the point 1(a) in the Chairman's introductory remarks, it was indeed disturbing to witness the unprecedented upheaval in the stock markets and the exchange rates. The underlying factors behind them might vary, but increased concern in the market -- with higher interest rates and inflation as a result of the so-called "twin deficits" of the United States -- seemed to have played an important part. Trade-policy makers under such circumstances should not stand idle or act inadvertently for fear of being

accused of causing such problems. The GATT report on International Trade 1986/87 (page 31) clearly pointed out that protectionism did not produce a lasting remedy for trade deficits, and that since there existed a direct connection between the fiscal deficit and the current account deficit, sound fiscal policies were vital in reducing the trade deficit. On the other hand, trade policies also needed to be consistent with and mutually reinforcing financial and monetary policies. Open international trade played a key rôle for sustained growth, and all the more because a difficult financial and monetary situation prevailed; such a rôle of trade policies should be strengthened, and for that the momentum of the Uruguay Round should be kept up. In this respect, his delegation reiterated its deep concern over the proposed US Omnibus Trade Bill, which contained strong protectionist elements, and strongly hoped that the US Administration would hold its declared position to fight protectionism.

On point 1(c) he said that if the level of uncertainty of trade policies was generally high, the reason was likely to be found in the lack of observance of existing international rules, notably GATT rules and disciplines, or the lack of precise rules and disciplines themselves. His delegation believed that in the long term, the latter as well as the mechanism for their surveillance had to be strengthened in order to reduce uncertainty created by trade policies; for that, the Uruguay Round offered the most opportune moment to address such questions. He recalled the numerous Japanese submissions to that effect in the Uruguay Round, including a proposal for country review of trade policies as an effective surveillance mechanism. More immediately, it would be increasingly important to ensure transparency of trade policies and their strict compliance with existing GATT rules and disciplines so that the effects of the trade policies could be measurable for other countries affected. In this respect, Japan drew attention to the important Free-Trade Agreement recently concluded between Canada and the United States and hoped that the question of its GATT consistency would be fully studied. Japan was particularly concerned over the effects which the Agreement might have on the Uruguay Round, and strongly hoped that it would be implemented so as to contribute towards the expansion of world trade without any impairment of the benefits of third countries. Japan also expressed concern over the Community's anti-dumping regulations regarding parts and components, as it seemed most likely that it contravened the relevant GATT provisions.

On point (2), he noted that there had been a rising trend towards the use of the GATT dispute settlement mechanism during the period under review (C/W/528 para.14). His delegation had been deeply involved in this trend. The GATT dispute settlement mechanism was principally aimed at facilitating the satisfactory adjustment of disputes among parties concerned, and in that sense the mechanism was quite distinct from a judicial court. The increase in the use of the mechanism would enhance the contribution of GATT in the overall multilateral trading system, so long as the mechanism was well respected by all parties concerned and, also importantly, was not abused in the light of its principal objectives. Japan would continue to be faithful to its objectives, and address any matters before it, bearing in mind such objectives.

In conclusion his delegation paid high regards to the efforts of liberalization of market access recently made by Korea, Indonesia, Colombia and Morocco, and hoped that similar efforts would be made by all countries.

The representative of Australia, referring to the statement by India, said that commodities were an area of interest not only to developing countries but also to his own country, for which commodities, some non-agricultural, constituted 80 per cent of its exports. Turning to other matters, he said that a review of the development of the international trading system to September 1987 might not prove a guide to what lay ahead but might point to what should be avoided. The next few months would be crucial to the world economy if global financial difficulties were not to flow unchecked into the whole economic process. What had to be prevented were knee-jerk reactions in trade policy. Even more than before, safeguard against a slide into protectionism was needed, and the GATT had an important part to play in this process. While its effectiveness had been criticized, the GATT represented a distillation of wisdom derived from the last depression and its consequences. In this context it was worth emphasizing that it was not the stock market crash that had caused the economic dislocation of the 1930s but the governments' policy reactions that had followed it. With hindsight it was clear that this policy reaction -- protectionist and introspective -- had been wrong.

The Uruguay Round was aiming at further refinement and clarification of the rules. However, one rarely, if ever, heard criticism that the spirit of the GATT Articles were at fault. One could say that the rules were already there, but what was lacking was the political will to observe them. The circumstances of the last few weeks in themselves should be sufficient to bring forward the very political will that had been lacking and that was necessary to preserve the multilateral trading system. This was not a time for experimentation which could lead to the destabilization of the world economy. More thought was necessary before States embarked on trade retaliation, and more thought should be given by the contracting parties about the provisions in the GATT which dealt with imbalance of rights. A proper and balanced exertion of GATT rights approved by the CONTRACTING PARTIES would be preferable to random action where such action could lead to undesired repercussions.

Over the period under review, actions had exacerbated world tensions and had contributed in some part to a lack of investor confidence. While the Uruguay Round was meant to address future difficulties, the emerging problem was an existing one, and the GATT contained the only rules under which to operate at this juncture. Thus the coming year was a critical one for the GATT. Its deliberations could have an essential stabilizing influence in a volatile and uncertain situation. There was, in its processes, a place for collective wisdom and shared problem solving. Where there were difficulties, such as a slide in world economic growth, the GATT could help to manage the downturn. There were many similarities between the events leading up to 1929 and the current situation. While history was instructive, only time would tell whether the outcome would be the same. There was one significant difference: in 1929 there was no GATT; there

was no colloquium of the major trading countries to discuss and plan collective action to meet emerging world trade problems. Attempts at the time to develop on an ad hoc basis the kind of dialogue that the GATT could provide had not been successful. Present events in the financial markets indicated that the world had never been more inter-related. For all practical purposes there were no untouched havens from the turmoil of the financial markets. The issues for GATT's future work were therefore more the causes than the effects. Most trade wars between the major powers over the last year had focused on the effects and had frequently taken place outside the GATT framework. However, it was true to say that no country had escaped the crossfire arising from these bilateral sorties, least of all Australia.

Australian trade policy sought to seek solutions that addressed the causes of world trade distortion whether they be tariffs or non-tariff barriers, such as subsidies. It was also Australia's belief that these issues had to be addressed in the most expansive way possible - not through concessions on minutiae but in respect to broad principles. Australia's philosophy was that it had to restructure its economy to hold its position in a changing world and that this restructuring should be based on sound economic principles rather than short-term expediency. The rules of international trade should not only accommodate change, but should also encourage change in a gradual and adjustable way, avoiding catastrophic crises.

In the immediate future, the GATT could perform a very important task in the management of change and in promoting a collective realism of the detrimental effects of policies focusing on immediate self interest. Over the past year, the need for an "early harvest" in the Uruguay Round had been put forward. Australia considered that this would be a clear demonstration of the seriousness with which governments were attacking the task of trade liberalization. However, recent events and the timeframe for the Uruguay Round had led to doubts on whether one could afford to wait for this "early harvest" if the GATT was to have any impact on the present situation. Therefore, serious consideration should also be given to making the commitment, in the GATT as it was, to adhere to its basic principles and rules and to give effect to this by taking actions that would put real meaning into the Punta del Este Declaration on standstill and rollback. Such a commitment would give a tremendous boost to the work in the Uruguay Round, which was directed to further improving and refining the rules that governed international trade. Australia had been interested by the discussion of the interdependence between the trade, financial and monetary situations and hoped that this enthusiasm would be carried next year in the Negotiating Group on Functioning of the GATT System.

The representative of Yugoslavia said that document C/W/528 and Chapter 1 of GATT's International Trade 1986/1987 threw additional light on the situation and developments in the trading system. The prospects for international trade were not depicted as very promising. The still unforeseeable implications of the recent developments in the financial and exchange markets, coupled with the new and announced protectionism that went beyond the field of trade, seriously aggravated the uncertainties in

the international trading system based on GATT and as projected by the Uruguay Round. Very frequently, some essential trade measures, primarily of major trading partners, were not in conformity with their contracting-party and political obligations under the General Agreement. In addition, adequate and long overdue measures were lacking in the monetary and financial fields, prolonging and deepening the unstability in these areas and aggravating the problems of world trade and economic development of the developing countries. Developed countries' protectionist measures continued to affect mainly imports from developing countries. The effort at liberalization was almost negligible in the period under review. The present difficulties were further compounded by a dramatic decline in commodity prices, balance-of-payments constraints, heavy indebtedness and net capital outflows, so that the majority of developing countries were presently facing not only the problems of how to ensure further development, but also of how to maintain their existing living standards.

His delegation was of the view that the first part of paragraph 8 of C/W/528 could give a wrong impression that low and bound tariffs were a reality in all sectors. Unfortunately the facts were somewhat different, and there was even a tendency to use and abuse new protectionist instruments. He therefore proposed that the paragraph be amended to read "tariff reductions have been less pronounced on products of export interest to developing countries such as agriculture, textile and some other sectors with high tariffs and para-tariff escalation." In paragraph 12 after the first sentence, an overview should be given of different kinds of subsidies: capital injections, partial compensation for losses, subsidized wages, funds for research and development. This was all the more important, as the second part of the report showed that State financial intervention was increasing in the manufacturing sectors of developed countries.

It would seem that the developing countries, despite all the unfavourable circumstances, had proceeded with the liberalization of their trade régimes when possible. This fact had been insufficiently stressed in paragraph 18, and many more developing countries than indicated had adopted liberalization measures in the reporting period, like Sri Lanka, the Philippines (page 47) and Tunisia (page 42).

The exports of developing countries mostly consisted of agricultural products, textiles and clothing, leather and footwear, steel and steel products, and electronic products. Protection in these sectors was very high in industrialized countries and covered a whole range of grey-area measures such as export restraint arrangements, including voluntary export restraints, orderly marketing arrangements, export forecasts and basic price systems. These were accompanied by the negative effects of subsidies in agricultural and manufacturing sectors in industrial countries, and by too frequent and unfair resort to anti-dumping and countervailing duty actions by some industrial countries. Therefore, the need should be underscored once again for concrete and urgent action that would be in the interest of all and aimed at creating a climate of confidence. This primarily required political will and readiness on the part of governments,

in particular those with a larger share and greater responsibility in international trade. Common efforts were needed to ensure fair market access for developing countries' exports and to resolve their serious economic problems, including the debt problem, thus securing their growth and development and benefitting world trade as well.

The representative of Finland, on behalf of the Nordic countries, welcomed the results of the informal consultations that the Chairman had initiated on the possible improvements to the special Council's mode of deliberations. The Nordic countries were in favour of moving in the direction indicated, and would thus try to focus their observations on the issues which he had outlined. The international economic scene had been deeply affected by the recent turbulences in financial and exchange markets. The practitioners of trade policies had been once again reminded of the uncertain nature of the broader economic environment in which trade exchanges took place. There were many elements in that broader environment which gave rise to continuous concern. The Secretariat overview listed some of them: the sluggishness of the general economic performance, poor growth in investments, output and trade, debt problems, volatility of stock and exchange markets and the continuation of large payments imbalances, particularly between the major trading partners. Trade policies had been part of the problem in the global context. Wrong steps had aggravated some of the problems and imbalances. On the other hand, the unfavourable environment had tended to amplify protectionist pressures. As trade policies had been part of the problem, they also had to be part of a broadly-based solution.

It was true that GATT had already given a confidence-building signal by launching the Uruguay Round. The importance of that achievement as well as the very serious fashion in which the negotiating process had taken off during the past year, merited to be underlined also in this context. GATT had by no means remained an idle observer of efforts pursued elsewhere and by others. By pointing this out, however, it was not implied that GATT's contracting parties could now relax and simply watch what kind of stabilizing and corrective measures could be agreed upon elsewhere. They had the right to expect that such measures should be actively explored and also taken but -- at the same time -- they had to continue their own efforts to advance towards the objectives of the Uruguay Round while living up to the existing GATT rules and disciplines and making full use of the GATT instruments which were at their disposal.

The Nordic countries' experiences from the Uruguay Round and the information compiled by the Secretariat had led them to a fairly confident overall conclusion about the contribution which the GATT system could give to the broader efforts aimed at redressing global economic problems. The Uruguay Round had not lost its momentum. On the contrary, in some areas, considerable progress had taken place. The credibility of the exercise as a whole had remained good. It had also been noted with satisfaction that parties to bilateral trade disputes had more frequently relied on the use of the GATT dispute settlement mechanism. The Punta del Este commitments on standstill and rollback had also evolved from political undertakings to more operational concepts. There was also evidence that the Uruguay Round

had promoted awareness on the part of governments of the need to look for long-term solutions for the existing trade problems and for economic problems having trade effects. The whole atmosphere in which the Uruguay Round discussions on agricultural issues had been conducted proved the validity of this point.

It was also true, however, that the overall trade policy picture was not as rosy as one might conclude simply on the basis of developments on the Geneva scene. This fact was also amply manifested in the Secretariat note. The proliferation of grey-area measures had not been brought under control. A number of trade disputes remained open and thereby threatened the stability of trade relations and, indirectly, even the progress of the Uruguay Round. Proposals for protectionist trade measures were still very much alive in many quarters, and there was a constant danger that the uncertainties in the stock and exchange markets would have negative effects on growth and trade as well.

In these circumstances, it was imperative that governments, particularly those of the major trading partners, co-operate effectively in order to reduce the existing high degree of economic, financial and commercial uncertainties. GATT was one important forum for such co-operation, and the special surveillance mechanism built within the Council machinery was one important instrument which could be used for analytical purposes. The Nordic countries were interested in exploring the ways in which this instrument and its use could be further developed. They tended to see a close link with the ongoing work in the Negotiating Group on Functioning of the GATT System as well as with the rôle played by the Uruguay Round's Surveillance Body. They fully agreed that it would be useful to give more focus to the special Council meetings by inviting the Secretariat to pinpoint in the future background documents certain topics for the deliberations. They also agreed that the recording of these deliberations could be reviewed with a view to finding a practice which would provide the participants and those who followed these activities with a better grasp of the essential elements brought up by this process of surveillance. As to a more formalized joint assessment in the special Council meetings, the Nordic countries remained sceptical and saw a danger of a rather time-consuming exercise with possibly quite meagre and diluted results.

The representative of Hungary said that the factual part of the document prepared by the Secretariat provided a good basis for exchanging views. Hungary shared others' concerns relating to some negative trends characterizing the present state of affairs. Indeed, when witnessing an unprecedented turbulence in the financial and exchange markets, with all their negative effects on the economies of all contracting parties, the necessity of stable international trade relations based on more effective disciplines and compliance with existing rules was even more pronounced. In the last six months, however, one had been faced with continued protectionism, growing uncertainties, threats of unilateral actions and retaliations by some major trading nations, increased bilateralism, continued application and even introduction of trade measures inconsistent with the GATT.

Although Hungary shared to a certain extent the general satisfaction over the progress made so far in the Uruguay Round, one could not ignore the clear contrast between the greater appreciation by governments of the need to look for long term solutions on the one hand, and the actual conduct of trade policies, on the other. A deteriorating trading environment could hinder the achievements of the objectives accepted by all in the Punta del Este declaration. New protectionist actions and legislations would not only put into question the value of the Punta del Este standstill and rollback commitments, but would also carry the risk of undermining the whole negotiating process and the remaining credibility of the multilateral trading system. In these conditions, Hungary clearly saw the necessity of achieving some results in solving the most pressing problems in the negotiations by the time of the 1988 mid-term review of the Uruguay Round. This implied strict adherence to the standstill and rollback commitments.

He commented on the information contained in Appendix IV of the Secretariat's document under the title "Bilateral Trade Agreements" (page 96, para.4) which dealt with the ongoing negotiations on a trade and economic cooperation agreement between the European Economic Community and Hungary. He said that the outstanding key issue of the negotiations was the full elimination by the Community, within an agreed definite time limit, of the quantitative restrictions mentioned in para.4(a) of the Hungarian Protocol of Accession to the GATT. He emphasized that the Hungarian party made the agreement with the European Economic Community dependent on this. The elimination of these quantitative restrictions was an already existing contractual obligation of the Community and its member States, and therefore could not be considered as a concession by the Community; consequently, the Hungarian side would not reciprocate it in any way. The ongoing negotiations also covered improvement of market access conditions through reciprocal reduction of MFN tariff rates or other import charges relating to agricultural products.

The representative of the United States said that his authorities were still reviewing the comprehensive Secretariat documentation in its entirety. As to the suggested approach, the themes that had been identified all seemed to point to one place, i.e., the Uruguay Round. Indeed, it seemed to his delegation that the present global economic situation was one characterized by severe trade imbalances and severe debt situations. It could also be said that one response to these was protectionism. A more positive response, however, was to identify those kinds of policies and actions that would lead to economic growth, particularly by the surplus countries. In this context, macro-economic policies were certainly important, but micro-economic policy was also critical and perhaps, more importantly, represented an area where progress could be made and over which this body could exert some control. One could expect that economic growth could be facilitated by trade expansion which in turn could be fostered by trade negotiations. That brought one back to the Uruguay Round and to the need to persevere in its work. One particular area, also mentioned by Australia and the Community, was the Negotiating

Group on Functioning of the GATT System, which was very much related to the need for greater coordination and cooperation, both within the special Council meetings and in other institutions in the economic field.

In the informal discussions, his delegation had expressed some scepticism as to the usefulness of the "theme approach". It was an experiment worth trying no doubt, but the United States did not think that the time was yet ripe. He said that if one closed his eyes at the present meeting and listened, it would be difficult to determine whether one was sitting in the Consultative Group of Eighteen, the Trade Negotiations Committee, the CONTRACTING PARTIES session or even some other fora. The issues were important but time was limited. Careful thought should be given as to where was the best place to discuss certain kinds of issues and how to make the best use of the available time.

The representative of Canada said that his delegation saw the Secretariat document as a collective inventory which filled an important political requirement. He agreed with India's call for caution about the danger of turning the special Council meetings into a routine exercise; necessary time should be provided to make it worthwhile. Both C/W/528 and Chapter 1 of the International Trade 1986/1987 depicted a situation which did not inspire confidence. No room was left for complacency. However, the situation could be worse. Japan had noted positive steps that had been taken, such as the introduction of unilateral trade liberalization programs. Canada considered its recently concluded bilateral agreement with the United States as one of these positive steps which constituted an important contribution to the current work in GATT.

His delegation welcomed the notion of centering the discussion around themes, but also agreed with the United States concerning the fora. The Uruguay Round Surveillance Body could be one of these other fora.

As to the Chairman's point 1(a), there was an increasing awareness that micro-policy decisions on adjustments at the firm level, and a range of trade policy decisions, had a direct relationship to the financial or monetary developments which to some extent could be traced back to the uncertainty prevailing in the trade policy environment. For example, there was uncertainty as to whether one could discharge one's responsibilities in GATT, but also as to the kind of trade policy that was emerging in certain countries. The current trade policy environment was not contributing to investment confidence, and some investment decisions at the micro level had an effect on economic prospects more generally.

As to point 1(b), it was a general question that could not perhaps be answered in the time available at the present meeting. His delegation had been heartened, however, by the number of proposals made and the manner in which representatives across a wide spectrum seemed to be making important progress in that area.

On point 1(c), two equally important things could be done: to respect the standstill and rollback commitments and to make early progress. This was a way of reducing the uncertainty and of trying to inspire confidence that GATT negotiators knew what they were doing and were moving in the right direction.

Regarding point 2, there were positive signs. More and more contracting parties were bringing cases to the GATT for adjudication. There were also some worrying signs, as some disputes seemed to remain outside or at the fringe of the GATT. The Uruguay Round was again the focal point where hope had been placed and political will mustered to try to improve the situation. This should continue to be the way.

The representative of Brazil said that several factors had contributed to an overall climate of economic uncertainty during the six-month period ending 30 September 1987. Prices of oil and other commodities had continued to fall sharply, interest and inflation rates had further declined, but the growth of economic activity in industrialized countries had not been sufficient to generate an increase in the demand for imports. Indeed, prospects that economic activity in industrialized countries would gain momentum from the favourable evolution of certain indicators had never materialized, and the trend towards a slower growth rate of world production had continued. Thus, the argument that developing countries would actually have benefitted from an amelioration of the economic conditions in the industrialized economies could never be proved.

Protectionism had played a significant rôle in preventing developing countries from having access to markets where products of export interest to them had proved to be competitive. The basic principles of the Generalized System of Preferences (GSP) were being further eroded and it was being distorted by economic pressure, thus paralyzing the achievement of international cooperation in the trade area. In addition, prices of primary products had dropped to all-time lows, adversely affecting the export revenues of developing countries. This discouraging situation, aggravated by the restrictions on access to external financing, had forced some of those countries to adopt import restrictive measures. Yet, imports were vital to the aims of economic growth. The developing countries did not represent sizable outlets for products originating in industrialized countries because they had not been given the means to absorb them. Clearly, the emergence of new markets for the products of developed countries was of necessity based on the improved economic capacity of the developing countries.

In general, the situation of developing countries remained difficult. Current account deficits had increased, international reserves had declined, access to funds on the external financing market had been denied to most debtor countries and it had been virtually impossible to obtain private and official credit via debt renegotiation arrangements. For Brazil, the need to generate high trade surpluses in order to continue servicing the debt under increasingly unfavourable conditions had disorganized the domestic economy. In the recent past, a substantial

reduction of the trade surplus had led to a near depletion of reserves and the suspension of interest payments to private creditors. In order to reverse this situation, the Brazilian authorities had been obliged to resort to tighter import controls and mechanisms designed to contain the high deficit in current accounts. These and other measures taken under the Macroeconomic Control Plan had already yielded results such as lower inflation rates, resumption of economic growth and increase in exports. However, whether such achievements would further allow the Government to introduce more flexibility in its import policy greatly depended on the behaviour of a number of external factors. Actually, developments in the international trade environment would influence progress of the Uruguay Round, which Brazil considered should produce benefits for all countries but mostly for the developing countries, which found themselves in a less favourable position in world trade.

For the first time since World War II, this decade had witnessed a regression in the growth trends of practically all developing countries, a large number among them having become net exporters of financial resources. This was an untenable situation from both an economic and a moral standpoint. Brazil had advocated a political treatment of the external debt issues which took account of the needs for economic and social development of the debtor countries and recognized the joint responsibility of creditors and debtors alike. The lack of positive response to this proposal had resulted in the persistence of the heavy burden that the external debt imposed on developing countries and on the international economy, depressing the pace of economic activity and trade flows and therefore hampering global economic recovery. There was no doubt that, unless governments resolutely decided to look for long-term solutions for the problems that really affected the international trading system, one would continue to experience uncertainties and disequilibria. Brazil believed that in the quest for a more stable and more equitable trading system, due account should be taken of the inalienable right to development of all peoples and in particular of the need to allow for market expansion and economic growth in less developed nations. In concluding, he said that the above comments were meant to respond to the Chairman's suggestion to structure the debate. However, Brazil agreed with the United States that this exercise was taking a direction that might not be appropriate for the fulfillment of the objective set out in para.7(i) of the 1982 Ministerial Declaration. Further reflection was needed on how best to make use of the time available in order to carry out this assignment.

The representative of Tanzania said that what seemed to be at stake was the relative importance of micro management and macro policies. The International Monetary Fund and the World Bank had always said that "macro" was the important thing, whereas in this forum, "micro" was. While there might be something to this, he believed that micro policies had been pursued all along. What really mattered in this discussion seemed to be more the misdirection of past micro policies and whether they were to be re-routed. He said that it was a matter of concern to his delegation that what was sought was a list of micro policies, and he asked what these might be. Perhaps it had been a series of micro policies which had affected the environment, which called for macro management in order to gain time for

suitable micro policies. If the Council was to make a contribution, some kind of common perception had to be shared, and international surveillance was needed. Money was as important as trade itself. If the current monetary environment had prevailed at the time of the Punta del Este meeting, Ministers might have had other things to say.

The representative of Argentina suggested that, with respect to the India's comments about the need to provide sufficient time to meet the Council's objectives, it might be appropriate to separate the timing of the special and regular Council meetings. His delegation was also interested by Japan's suggestion concerning the structure and the themes for these meetings. Consideration might be given to the possibility of making recommendations or conclusions on the basis of an analysis of trade policies. This could be done in relation to their conformity to GATT's and the Uruguay Round's objectives, and could include suggestions as to the corrections that might be required.

Referring to the usefulness of the Secretariat's background document, he pointed out that the insufficient information on commodities in C/W/528 was probably compensated in part by information contained in International Trade 1986/1987. He agreed with India's remarks about the conclusions reached at UNCTAD VII; these should be properly reflected.

Reference had been made to macro-economic policies, and to the interdependence of trade policies and other policies. It seemed that too much emphasis was being placed on what could be seen on the surface, but not enough emphasis on the real causes of the financial and monetary problems. Mention had been made of the budget deficits, the trade imbalances and the necessary adjustments, but where did these imbalances come from, if not from imbalances in the real variables? Brazil and Australia had mentioned protectionism as one source. Protectionism was certainly an important cause, but not the only one. Another basic source was a misallocation of resources, which had led to a greater factor remuneration than would have been called for by the market variables of supply and demand. These factors in turn generated an inflationary demand and fiscal problems, which in turn had affected all monetary variables. Thus, protectionism was an important source of imbalances, but so was the distortion in the real variables of the economy. Briefly, there were numerous causes at play. In conclusion, a positive response from these special Council meetings, in accordance with their objectives, was what was needed as a signal to help counter the negative effect of financial, fiscal and monetary policies.

The representative of Mexico referred to paragraph 147 of C/W/528 and asked that reference be made to statements which had been made earlier at the regular Council meeting[1] by Mexico and the United States on the comprehensive framework agreement recently concluded between the two countries.

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[1] See C/M/215, Item no.16.

The Chairman, in reply to the representative of Mexico, noted that the background document (C/W/528) covered the six-month period ending at 30 September 1987.

The Director-General drew attention to his periodic report on the Status of Work in Panels and Implementation of Panel Reports contained in document C/152 and noted that the GATT's dispute settlement procedures had continued to be used extensively. One was pleased to see that they were being used, but it showed that tensions existed; hence his mixed feeling about the matter. Since his last report in June 1987, six panels had submitted their findings. One consistent trend could be seen, namely the speed at which the work had been done. The six panels in question had been able to submit their findings to the parties to the dispute on average about five and a half months after their first meeting with the parties. The panels were thus able to deliver their findings on average well within the maximum period of nine months foreseen in the 1979 Understanding. In the six panel cases in question, about five months had elapsed on average between the first Council consideration of the request for the panel and the agreement on the composition of the panel. This meant that it had taken almost as long to constitute the panels as it had taken the panels to deliver their findings. He congratulated the Panel Chairmen and members for their speedy work.

As to the basic documentation for the present meeting, he recalled that many delegations had either referred to Chapter 1 of International Trade 1986/1987 or to document C/W/528, and he noted some complementarity between the two. GATT's economists expressed their views twice a year; the Council met in special session twice yearly. From a substantive point of view, he had noted that the debate had covered not only trade-policy developments as such but also the evolution of international trade in a wider context. Accordingly, he wondered whether it would be useful for the Secretariat to synchronize the two processes so that the special Council meetings would have the benefit of the two bases for the discussion.

Concerning the debate, he had been struck in the past few weeks by the insistence with which the media and those in charge of trade policies had been asking for comments from trade-policy-makers in relation to the impact of what had been happening in the financial markets. The activities of those in charge of trade policy were very much in focus, more than ever and because of well-known historical reasons. Therefore, both in GATT's regular activities and in those of the Uruguay Round, great care should be taken not to send wrong messages, even inadvertently. The responsibilities involved in carrying out both activities were now bigger than ever.

The representative of South Africa said that as indicated in paragraph 1 of Section A of document C/152, Canada had indicated at the Council meeting of May 1986 that it had not been in a position to indicate whether it could support the adoption of the report of the Panel on measures affecting the sale of gold coins (L/5863). His delegation had dealt in a constructive spirit at that meeting with some of the problems

experienced by the Canadian authorities in the hope that it would help them in reaching a positive conclusion. He asked whether, in the intervening months, Canada had been able to make progress in this direction. Should Canada not be in a position to respond at the present meeting, his delegation hoped that it would be able to do so at a subsequent meeting or during the forthcoming Session of the CONTRACTING PARTIES.

The representative of Canada said that the appropriate place to discuss this issue would have been in the regular meeting of the Council. He recalled that the measure which had been the subject of the complaint had been removed long before the last consideration of the matter by the Council in May 1986. Canada's views about the Panel recommendations had been set out in the minutes of that meeting.

The Chairman, in summarizing the discussion, noted that there had been widespread praise for the quality of the Secretariat's preparatory work and of the background document in C/W/528. Suggestions with regard to specific amendments and changes to the text would be dealt with by the Secretariat. He considered it worth restating the operating premise, namely that the background document was the Secretariat's own work product and was not an attempt to create a text which would reflect the view of all participants. The minute of the present meeting would comprehensively record the various points made by representatives.

He then drew attention to some common themes which, in his view, had emerged from the discussion. One was the inter-relationship of trade, financial, and monetary matters. Within that general heading, it seemed to him that three sub-themes had emerged.

First, there was an appreciation of the uncertainties caused by the current and immediate problems in financial markets; this seemed to be prominent in the minds of many. Linked to that, two recurring and fundamental issues had been restated, namely the problems relating to trading and economic imbalances among countries and the difficulties affecting the debt-servicing capacity of many countries with restrictions in the trading system which failed to provide them with greater trading opportunities playing an inhibiting rôle. Second, a general view had been expressed that trade policies and trade itself had been affected by policies in the financial and monetary areas. Third, there was the obverse phenomenon: difficulties in trade and in particular the uncertainty of trade policies had directly affected financial and monetary policies. A number of representatives had pointed out how the uncertainties in trade policy had been a key factor, direct and indirect, in the immediate problems with which governments were confronted in financial markets.

Two general conclusions seemed to stem from this analysis. The first was the importance of discipline and certainty in trade policies; representatives had used different words, but the idea was the same. In this context, special emphasis had been placed on the importance of ensuring that no new restrictions were created so as to guard against any

increase in protectionism. The second conclusion reflected the view that what could currently be regarded as a short-term problem in the financial markets should not be exacerbated by any sudden shifts and any increase in trade restrictions or distortions which might, in fact, turn it into a long-term problem.

Finally, great importance had been attached to the impetus which had been given by the Uruguay Round to the endeavours within the confines of this organization to confront the situation. Two particular aspects of this had been mentioned: one was the need to give momentum to measures which would open up the trading environment, even in the immediate term; the other was the importance which representatives had attached to the commitments which underpinned the Uruguay Round, particularly those related to standstill and rollback.

He recalled that the Director-General had said that the discussion had suggested to him that in preparing for future special Council meetings, the Secretariat might consider some closer synchronisation in the timing of the Secretariat's background document and of the GATT's Annual Report. The Council might note the Director-General's interest in this possibility and await the results of his deliberations on it. In this respect, it was noteworthy that many representatives had drawn attention to the Annual Report and likewise commented on its high quality.

Some comments had been made about the nature of the process itself and on how more focus could be given to the discussion at the special Council meetings. His own informal consultations with delegations had made it clear that whatever was attempted at the present meeting would be on a trial basis. It seemed to him that the experiment had been half successful, perhaps a bit more so. In this regard, it would have to be recognized that there had not been a great deal of time for delegations to consider the questions which he had proposed at the beginning of the meeting. Accordingly, it had been suggested that when preparing the next six-month review, the Secretariat might identify two or three central themes emerging from the background document on which discussion could be focussed. The Secretariat's suggestions could follow on from the overview section of that document. In other words, this would put into the document something like the questions which he himself had proposed at the beginning of the discussion, the advantage being, however, that delegations would have more time to reflect on the matter. It would be understood that this would not in any way preclude any delegation from addressing any other matter. The background document would, in any event, remain the product of the Secretariat; it would be for delegations to decide whether to address the themes suggested for discussion.

Another issue raised in the informal consultations was whether the Secretariat might be invited, on its own responsibility, to attempt to produce, in addition to its usual record, a brief summary of the themes that had been addressed in the discussion. The Secretariat might thus produce an overview of the discussion. There appeared to have been a measure of agreement on this among delegations during the informal consultations.

The representative of the Unites States reserved his delegation's right on the question of a separate summary document. As for giving more focus to the discussion, his delegation was not convinced of the utility of suggesting themes to structure the debate, and questioned the usefulness of such a debate in this particular forum. More time was needed to reflect on this. The United States would take the opportunity in the forthcoming CONTRACTING PARTIES' session to comment further on the issue, in the context of the Council's report.

The representative of India said that his delegation, although invited, had not been able to attend the informal consultations. He thought it would have helped the Council's discussion if the views expressed at the consultations had been presented at the beginning of the present meeting. His delegation saw no difficulty with the experimental suggestions, but caution would be needed with regard to the special Council mechanism so as to avoid its becoming a routine affair.

The Chairman said that there would not appear to be anything to prevent the Secretariat from giving a focus to the document prepared by it for the special Council meetings. While the Secretariat could shape the document in a variety of ways, what was important was that it should always seek to keep within the mainstream of delegations' thinking. He assumed that the United States' reservation related to the extra step of the Secretariat's preparing an overview of the discussion of the document.

The representative of the United States said that he assumed that some kind of report on the debate would be made to the CONTRACTING PARTIES and that, however it was made, his delegation reserved its right to take that opportunity to comment on the issue.

The Chairman noted that the idea had only received cautious support in the informal consultations on the understanding that it was experimental. Whatever additional comments delegations would care to make could be made at the forthcoming session because the discussion at the present meeting would be reflected in the Council's report to the CONTRACTING PARTIES. The matter could be pursued further in the light of any discussion at the Session and in informal consultations before the next special Council meeting.

In the light of the broad general interest shown in the background documents prepared for the special Council meetings, which had been discussed in the Chairman's informal consultations with delegations, the Council instructed the Secretariat to reissue the present background document and future similar documents, once they had been corrected, as unrestricted documents.

The Council took note of the statements and agreed that the review of the developments in the trading system had been conducted.