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SM/83/259

December 23, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Thirty-Ninth Session of the CONTRACTING PARTIES to the GATT

Attached for the information of the Executive Directors is a report by the Fund observers on the Thirty-Ninth Session of the CONTRACTING PARTIES to the GATT held in Geneva during November 21-23, 1983.

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INTERNATIONAL MONETARY FUND

Thirty-Ninth Session of the
CONTRACTING PARTIES to the GATT

Report by the Fund Observers 1/

December 22, 1983

The thirty-ninth session of the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade was held in Geneva during November 21-23, 1983 under the chairmanship of Ambassador B.L. Das of India. The substantive agenda items were the examination of the report of the GATT Council to the CONTRACTING PARTIES and a review of the activities of GATT since the thirty-eighth session. 2/ Messrs. Carlos Sanson and Richard Eglin attended the session as the Fund observers. This report summarizes the proceedings.

The meeting focused on the implementation of the work program that was formulated at the thirty-eighth session of the CONTRACTING PARTIES which was held at Ministerial level in November 1982. Many delegates expressed the view that the difficult world economic situation had continued to place strains on the international trading system in 1983 and said that there was little evidence of the standstill or roll-back of protectionism that had been called for at the Ministerial Meeting. However, some representatives expressed encouragement that progress had been made in certain areas of the work program, particularly in improved transparency of contracting parties' trade measures and in the work of the GATT Committees on Trade in Agriculture and Trade and Development; still, they stressed that urgent attention needed to be given to the issues of safeguards, subsidies, and dispute settlement.

Representatives of developing countries emphasized the need to tackle more effectively issues relating to trade in agricultural products and textiles, and expressed concern that hardly any progress had been made in according more favorable treatment to developing countries

1/ Documents referred to in this report will be on file in the Secretary's Department.

2/ The agenda of the meeting is contained in GATT document L/5556.

under the General Agreement; trade liberalization was urgently needed in order that expanded export earnings might facilitate the adjustment process for countries in balance of payments difficulties, especially the heavily indebted countries. Many representatives of the major industrial countries stressed the need to address the work program set out at the Ministerial Meeting in a measured way, avoiding confrontation and providing for the balanced evolution of the rules and disciplines governing the international trading system.

1. Statement by the Chairman of the CONTRACTING PARTIES

In his opening statement, the Chairman recalled that the Ministerial Meeting of November 1982 had taken as its starting point the realization that serious problems existed with the multilateral trading system, as evidenced by the growing number of sectoral derogations from basic GATT principles and the circumvention of GATT rules. Deep concern had existed that the three basic principles of the trading system, namely multilateralism, nondiscrimination, and transparency, were under severe strain, and that the principle of more favorable treatment for developing countries was not being practiced. The Ministerial Declaration had been taken against the background of considerable economic difficulties facing contracting parties and had been an important expression of political intent to resist protectionist pressures and refrain from taking or maintaining measures which were inconsistent with GATT. This meeting of the CONTRACTING PARTIES provided the first opportunity to examine systematically the progress that had been made in implementing the Ministerial work program.

The Chairman remarked that although there were indications of economic recovery in some important economies, a significant number of developing countries would continue to face stagnation in the next few years, and for many of them heavy foreign debt burdens and low inflows of foreign exchange inhibited the development process. He welcomed the new awareness of the nature of the links between international trade and finance; however, it was unfortunate that import contraction rather than export expansion had made a more prominent contribution to balance of payments adjustment. There was an urgent need in this context for all countries to resist the short-term expediency of protectionism in their long-term national interest.

With respect to the program of work completed in the GATT during the twelve months since the Ministerial Meeting, he said that the most difficult areas to deal with had continued to be trade in agriculture

and textiles, and issues such as safeguards where the conflict between international obligations and domestic sectoral interest group pressure was the strongest. A fresh approach to the problems of trade in agriculture and textiles had been taken during the year, with progress in notifications and transparency made by the Committee on Trade in Agriculture and the initiation by the GATT secretariat of a study on international trade in textiles. With respect to the development of a comprehensive understanding on safeguards that had been called for in the Ministerial Declaration, he noted that despite intense efforts it had not proved possible to reach such an understanding so far. The Chairman also reviewed the work undertaken during the year by the Committee on Trade and Development, the Working Party on Structural Adjustment and Trade Policy, the Special Council, and the various GATT bodies concerning the Agreements and Arrangements resulting from the Multilateral Trade Negotiations (MTN).

2. Report of the GATT Council of Representatives

The discussion of most of the items contained in the Council's report to the CONTRACTING PARTIES 1/ was brief since delegations had already expressed their views at meetings of the Council during the year. 2/ There was, however, substantive discussion on a few items, as summarized below. The CONTRACTING PARTIES adopted the reports of the GATT Council and the Committee on Trade and Development, as well as individual reports relating to the MTN Agreements and Arrangements.

(a) Safeguards 3/

The Council Chairman, Ambassador Hans V. Ewerlöf of Sweden, reported on the progress that had been made to date on developing a comprehensive understanding on safeguards that the Ministerial Declaration had called for to be presented to the CONTRACTING PARTIES at this session; although certain progress had been made, it had not been possible to reach such an understanding and further consultations would be necessary.

Consultations had shed light on the nature of safeguard measures that had actually been taken which comprised not only bilateral arrangements of a voluntary export restraint or orderly marketing type

1/ GATT document L/5582.

2/ Regular reports to the Executive Board by the Fund observers on meetings of the GATT Council during the year are contained in SM/83/39 (February 28, 1983), SM/83/58 (April 5, 1983), SM/83/72 (May 10, 1983), SM/83/143 (June 27, 1983), SM/83/184 (August 11, 1983), SM/83/207 (October 18, 1983), and SM/83/240 (November 22, 1983).

3/ GATT document W/39/4.

between governments--providing for quantitative limitations, surveillance systems, price undertakings or export forecasts--but also actions of a unilateral character, and industry-to-industry arrangements where the specific role of governments was not always clear. Some contracting parties considered that these so-called "gray area" actions should be regarded as temporary and exceptional, while others considered them to be contrary to specific GATT Articles.

He further noted that "gray area" actions not only had led to misallocation of resources, higher consumer prices, and slower structural adjustment but also to cartelization of markets. The consultations had also shown that these actions were not subject to multilateral disciplines and lacked transparency, that existing domestic procedures to determine whether safeguard action was necessary were bypassed, and that usually no provision was made for compensation or the adjustment of rights and obligations as provided for in Article XIX. Moreover, these actions had proliferated over the past year and the adoption of the GATT Ministerial Declaration had not deterred their use. He therefore urged all contracting parties to reaffirm their intention to develop quickly a comprehensive understanding on safeguards, which should encompass the problem of "gray area" actions.

The representatives of Argentina, Australia, Brazil, Canada, Chile, Colombia, Egypt, India, New Zealand, Pakistan, and Switzerland regretted that it had not proved possible to reach agreement, and urged continuing consultations in order that a comprehensive understanding be reached no later than the next session of the CONTRACTING PARTIES in November 1984. The representative of the European Communities also supported further consultations on this matter but said that the CONTRACTING PARTIES should not set a specific target date for completion of the work. The representative of the United Kingdom speaking on behalf of Hong Kong said that no more than one percent of global imports were affected by voluntary export restraints and orderly marketing arrangements; he urged that all "gray area" actions be terminated and said that the comprehensive understanding which was being sought should be limited strictly to safeguard action under Article XIX.

(b) MTN Agreements and Arrangements 1/

At the Ministerial Meeting the CONTRACTING PARTIES had decided to review the operation of the MTN Codes, and the Chairman of the CONTRACTING PARTIES presented the reports prepared on their operation

1/ The MTN Agreements and Arrangements are generally referred to for convenience as the Codes, and this practice has been adopted here.

during the course of the year. 1/ The representatives of Egypt and Sri Lanka said that few developing countries had become signatories to the Codes after three years of their operation because they did not feel that there were significant benefits to be derived. The representative of Argentina said that his country was a signatory to a number of the Codes but that this had not helped to produce solutions to the problems it was facing, particularly in trade in meat and dairy products. In his view, developed countries had made use of the provisions of the Codes for protectionist purposes, and he referred in this context to the proliferation of anti-dumping and countervailing duty actions that had been imposed on products of interest to developing countries. The representatives of Colombia, India, and Pakistan commented along the same lines as previous speakers, and added that in their view the Codes were too rigidly interpreted to be attractive to developing countries.

(c) Committee on Trade and Development

The Chairman of the GATT Committee on Trade and Development, Ambassador Kazimir Vidas of Yugoslavia, presented the Committee's report to the CONTRACTING PARTIES. 2/ The work of the Committee during the past year had focused on the implementation of those items in the Ministerial Declaration relating to trade of developing countries. Consultations with the Nordic countries had been conducted to examine how they had responded to the requirements of Part IV of the General Agreement, and these consultations had proved useful. He added that a tentative schedule had been drawn up for consultations with the United States, Japan, and the European Communities in 1984. Consultations had also been held aimed at further liberalizing trade in tropical products and these would continue in the forthcoming year. A consultation had been held with Bangladesh in the context of improving GSP or MFN treatment for products of particular export interest to least developed countries, and further consultations with other least developed countries would be held next year. Finally, he noted that the Secretariat was preparing a background document on the prospects for increasing trade between developed and developing countries so that the possibilities in GATT for facilitating this objective could be examined.

1/ GATT documents L/5548 (Technical Barriers to Trade), L/5503 and L/5578 (Government Procurement), L/5496 and Add.1 (Subsidies and Countervailing Measures), L/5545 (International Meat Council), L/5546 (International Dairy Products Council), L/5491 and L/5583 (Customs Valuation), L/5553 (Import Licensing), L/5554 (Civil Aircraft), and L/5486 (Anti-dumping Practices).

2/ GATT document L/5580.

The representatives of Egypt and India expressed their satisfaction that the consultations that had taken place with the Nordic countries on their response to the requirements of Part IV of the General Agreement had been approached positively, and they hoped that the consultations scheduled for 1984 would be equally fruitful. The representatives of Colombia, Egypt, Pakistan, Sri Lanka, and Thailand voiced their satisfaction with the consultations that had been held on tropical products and expressed the hope that substantive progress would be made in removing obstacles to trade in these products in 1984.

(d) Dispute settlement procedures

An important item contained in the Ministerial Declaration was a set of guidelines aimed at streamlining dispute settlement procedures, and discussions had taken place during the year on this item at special meetings of the Council on Notification, Consultation, Dispute Settlement and Surveillance. 1/ The representative of Egypt recalled that the Ministerial Declaration had stressed the importance of resolving disputes wherever possible through conciliation if consultations between the parties to the dispute failed to produce a satisfactory resolution. He said that the increasing number of disputes being brought before panels in the GATT posed a threat to the harmonious expansion of trade and urged the CONTRACTING PARTIES to provide guidelines over how the conciliatory process could be made more effective. The representative of Switzerland stated that the current machinery for dispute settlement was not satisfactory and this reflected the fact that the provisions of the General Agreement were too rigid. The General Agreement, if it were to remain a meaningful contract providing guidelines to signatories on trade policy questions, had to evolve as a result of multilateral negotiation and not on the basis of case histories and precedents growing out of dispute settlement procedures.

(e) Consultative Group of Eighteen

The Director-General, as Chairman of the CG-18, presented the report of the Group, and proposed that the CG-18 for 1984 be composed of: Argentina, Australia, Brazil, Canada, Colombia, Czechoslovakia, the European Communities, Egypt, India, Japan, Nigeria, Pakistan, Spain, Sweden, Switzerland, Thailand, the United States, and Zaire. 2/ The representative of Pakistan expressed his delegation's satisfaction that the CG-18 had devoted a major part of its time in 1983

1/ GATT documents C/M/168, 169, 171, and 172.

2/ GATT document L/5572.

to studying the relationship between trade policy and the problems facing the international financial system. It was important that the work program at the GATT should be undertaken in full cognizance of the broad economic situation and in particular how developments in the international financial system affected trade. Cooperation at the secretariat level between the Fund and the GATT should be encouraged, but the thrust of this cooperation should be on an examination of the way in which the commercial policy of developed countries affected developing countries.

(f) The Committee on Balance of Payments Restrictions 1/

The representative of Pakistan said that consultations in the Committee had acquired new significance because of the severity of the balance of payments difficulties facing many developing countries, and that unless the adjustment burdens of the developing countries were lightened, it would be impossible for them to continue a liberal commercial policy.

(g) Matters requiring decisions by the CONTRACTING PARTIES at the thirty-ninth session

The CONTRACTING PARTIES adopted by vote a decision granting an extension to the Government of Turkey of a waiver allowing it to maintain as a temporary measure a stamp duty on certain imports until December 31, 1985, 2/ a decision waiving the provision of GATT Article II to allow the Government of Uruguay to maintain certain import surcharges in excess of bound duties until June 30, 1984, 3/ and a decision accepting an invitation to Tunisia to participate in the work of the CONTRACTING PARTIES pending the accession of Tunisia to the General Agreement under the provisions of Article XXXIII or until December 31, 1984, whichever date is earlier. 4/ The CONTRACTING PARTIES adopted without discussion the report of the Committee on Budget, Finance, and Administration. 5/

1/ GATT documents BOP/R/127, 128, 129, 130, 131, 133, and 134.

2/ GATT document L/5565.

3/ GATT document L/5567.

4/ GATT document L/5566.

5/ GATT document L/5564.

The CONTRACTING PARTIES adopted a decision to establish a working party to examine the request by the Government of the United States for a waiver pursuant to Article XXV:5 to permit the United States to extend duty-free treatment of certain goods imported from designated Caribbean countries under the Caribbean Basin Economic Recovery Act. 1/ Under this item the representative of Brazil expressed his support for the establishment of the working party and urged the United States not to implement its domestic legislation on this matter until all contracting parties had had an opportunity to review it. He added that it was the view of his Government that Brazil's sugar trading interests would be affected by the Act and Brazil therefore reserved its rights on this matter. The representatives of Argentina and Peru also reserved their rights on this item, while the representatives of Colombia, the European Communities, and Nicaragua expressed their support for the matter to be examined in a working party. The representative of Cuba stated her Government's opposition to granting the United States a waiver.

4. Activities of GATT

The Director-General of the GATT spoke first on this item and announced that he had invited a group of seven distinguished persons to examine and advise on problems facing the international trading system. 2/ He said that over the past year consultations with representatives of member governments had shown broad agreement on the fundamental need to resume the process of trade liberalization, and on the principles of the General Agreement as the basic contract governing their trade relations and the conduct of their trade policies. However, in the face of very serious social, financial, and economic problems, many of the GATT member governments he had consulted were finding it increasingly difficult in practice to maintain the liberal policy orientation to which they continued in principle to subscribe. He said that it was his hope that the group, which would meet over the next year or so, could produce a report that would assist governments in reconciling their short-term preoccupations in trade policy with their shared and continuing objective of preserving and developing a well-functioning international trading system.

1/ GATT documents L/5573 and W/39/3.

2/ The members of the group are: Senator Bill Bradley, U.S. Senator for New Jersey, United States; Mr. Pehr Gyllenhammar, Chairman and Chief Executive Officer of Volvo, Sweden; Mr. Guy Ladreit de Lacharrière, Judge at the International Court of Justice, The Hague; Mr. Fritz Leutwiler, President of the Bank for International Settlements and Chairman of the Governing Board of the Swiss National Bank;

Following this, representatives of member countries made general statements reviewing major developments in the international trading system since the thirty-eighth session of the CONTRACTING PARTIES. Most expressed the view that the progress made in implementing the program of action called for in the Ministerial Declaration had been rather limited. Many delegates attributed this to the difficult economic situation. Representatives from developing countries in particular stressed the extent to which their balance of payments difficulties had circumscribed their ability to address trade liberalization more actively. Statements by representatives of developed countries tended to dwell on the difficult problems that confronted the international trading system in the areas of subsidies, safeguards, and dispute settlement while representatives of developing countries stressed the urgency that they attached to making further progress in liberalizing trade in agriculture, textiles, and tropical products, and in attaining more meaningful concessions under Part IV of the General Agreement and the Enabling Clause. A selective summary of the main points made by delegations is given below.

The representative of Jamaica said that trade of developing countries had been seriously hit by the world economic recession and he stressed the need for countries facing serious balance of payments difficulties to continue to have access to international capital markets. With respect to the implementation of the Ministerial work program, he called attention to the limited progress that had been achieved in the areas of safeguards, the review of the MTN Agreements and Arrangements, and the development of a new impetus for the expansion of trade of developing countries on the basis of differential and more favorable treatment. Over the course of the next year, particular attention should be given to the work of the Committee on Trade in Agriculture and to follow-up work on the relationship between international trade and structural adjustment; he also invited an exchange of views that could lead to the launching of another multilateral round of trade negotiations.

The representative of the United States said that modest steps had been taken over the past year towards a more liberal trading system and that a new sense of urgency needed to be injected to complete the

2/ (Cont'd from p. 8) Mr. Indraprasad G. Patel, Director of the Indian Institute of Management, Director-designate of the London School of Economics, and former Governor of the Reserve Bank of India; Professor Mario H. Simonsen, Director of the Postgraduate School of Economics of the Getulio Vargas Foundation and former Minister of Finance of Brazil; and Mr. Sumitro Djojohadikusumo, Professor of Economics, University of Indonesia, and former Minister of Trade and Finance and Minister of Research of Indonesia.

Ministerial work program. The U.S. economy was on the path to recovery but the trade deficit had widened considerably, and this threatened his Government's ability to resist domestic protectionist pressures.

The representative of Japan stressed the need to strengthen GATT's surveillance and to improve transparency in the trading system. Special attention would need to be paid in 1984 to trade in high technology goods and in services, and to reaching a comprehensive understanding on safeguards. Recalling a recent statement by Prime Minister Nakasone, he proposed that the time had come to begin preparations for a new round of multilateral trade negotiations.

The representative of the European Communities stated that fears of a proliferation of protectionism that had existed at the time of the Ministerial Meeting had not in reality materialized in 1983. In this respect the GATT system had made a considerable contribution to preventing the proliferation of new restrictions; and the recent decline in world trade reflected a lack of effective demand. He said that while there was always scope for new liberalization, governments should not overstress its effects; a one percentage point cut in interest rates, for example, would do far more to aid economic recovery than a trade liberalization exercise. Commenting on the work within GATT, he said that in 1983 it had been necessary to review established procedures and practices, with respect, for example, to safeguards, subsidies, and preferential treatment for developing countries. It was important to continue this review in 1984 but without confrontations, since these tended to lead to entrenched attitudes rather than openmindedness and a new consensus. It was also important to avoid placing further strain upon the international trading system by undermining the principles of multilateralism and nondiscrimination contained in the GATT. With regard to the statement by the representative of Japan, he said that it was premature to discuss a further round of multilateral trade negotiations until the current work program was completed.

The representative of Sweden speaking on behalf of the Nordic Countries stressed the urgency with which these countries regarded the need for a standstill and a rollback in protectionism and their readiness to participate in such an exercise. This would be an important signal to the international business community in the current difficult world economic situation. Encouraging progress had been made in 1983 in the Committee on Trade in Agriculture, the Committee on Trade and Development, and in the consultations on trade in tropical products, and particular attention should be paid in 1984 to resolving outstanding issues in the fields of subsidies, safeguards and dispute settlement.

The representative of Sri Lanka said that the malaise affecting the international trading system had continued to deteriorate in 1983, in particular through increasing recourse to bilateralism and the unwillingness of contracting parties to make their measures more transparent. Referring to the question of Fund/GATT cooperation, he stressed that the GATT should not be used as a reviewing mechanism for Fund conditionality under any circumstances.

The representative of India stressed the need for developed countries to respect their commitments under Part IV of the General Agreement and in particular Article XXXVII. During 1983 it was his view that protectionism against developing countries had increased substantially and that there had been little indication that developed countries were prepared to fulfill their obligations under Part IV. As an example, over 100 anti-dumping and countervailing duty decisions had been taken against developing country exports in the first eight months after the Ministerial Meeting. He urged developed countries to improve market access for developing country exports and said that any attempt to demand trade liberalization from the heavily indebted countries under current circumstances could only lead to long-term structural damage to their economies.

The representative of Brazil stated that it was disheartening to see the extent to which protectionism in the developed countries was affecting the developing countries' export performance. Safeguard action by developed countries had a particularly deleterious effect in this regard, and in his view stemmed to a large extent from the failure of the developed countries to allow structural adjustment in their own economies. With respect to comments that had been made on the link between the international trading system and financial system, he said that it was increasingly accepted that balance of payments adjustment should be based on export expansion and this required an urgent reduction in the trade barriers facing developing countries. Any future negotiations on reducing these barriers, he said, had to take place on an MFN basis. Finally, he took strong exception to the statement by the representative of the European Communities that the extent to which protectionism had increased in 1983 was exaggerated, and to the statement by the representative of the United States that the size of the U.S. trade deficit was making the fight against protectionism particularly difficult in the United States. On this latter point he recalled a recent statement by U.S. Special Trade Representative Brock to the effect that the most important factor underlying

the U.S. trade deficit was the U.S. budget deficit and he added that his Government could not accept the view that the correction of this trade deficit should be the responsibility of the United States' trading partners.

4. Other matters

Ambassador Hans V. Ewerlöf of Sweden was elected Chairman of the CONTRACTING PARTIES for the forthcoming year, and Ambassador Felipe Jaramillo of Colombia was elected Chairman of the GATT Council.