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To: Members of the Executive Board
From: The Secretary
Subject: Uruguay Round

There is attached for the information of Executive Directors a staff paper on the Uruguay Round negotiations.

Mr. Boonekamp, Office in Geneva (41-22-734-3000) is available to answer technical or factual questions relating to this note.

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INTERNATIONAL MONETARY FUND

Uruguay Round: What is at Stake?

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I. The Setting

On December 7, 1990, in Brussels, ministers, who would have been putting the finishing touches to an agreement that was to set the multilateral trading framework for the future, agreed that it was not possible at the time to conclude the negotiations known as the Uruguay Round. Although the specific point over which the negotiations broke was agriculture, this does not mean that, despite some progress, it would have been easy to achieve agreement in other areas of the negotiations. The GATT's Director-General was asked to pursue intensive consultations to find a basis for resuming the negotiations. With the apparent understanding that the major points regarding agriculture would be addressed explicitly and with reasonable flexibility, the negotiations were relaunched in late February 1991. Thus, technical work is again going forward, but there is a general view that a successful conclusion of the negotiations will require months rather than weeks.

At stake is an agreement that would bring a material increase in world trade and, thereby, also in the growth potential of trading nations. 1/ In Brussels, a package appeared in sight that would have reduced tariffs significantly, including those on higher value-added production; gradually brought trade in textiles and clothing and grey-area trade 2/ into the multilateral framework; brought strengthened disciplines to the trade-related aspects of intellectual property; improved the GATT's rules and dispute settlement system; and reached agreement on, at least, a framework for trade in services. Other questions, like those on trade-related investment measures and the functioning of the GATT system, including the GATT's relationship with the Fund and the Bank in achieving greater coherence in policy formulation, probably could have fallen into place with

1/ For some quantitative indicators of simulated and potential benefits, see World Economic Outlook, October 1990, pp. 50 and 72-6.

2/ Trade managed bilaterally, or at least not on a most-favored-nation (MFN) basis, and of dubious GATT legality, such as voluntary export restraints (VERs).

agreement elsewhere. This package would have gone a considerable way toward meeting the objectives set at Punta del Este, Uruguay, in September 1986. 1/

Achieving these objectives involves addressing deep-seated political and economic problems that beset most of the 108 participating countries, 2/ large and small, developed and developing. These problems find their focal point in the discussions on agriculture, as agricultural policies in many countries involve the whole complex of basic reasons that drive departures from market determination, e.g., concerns regarding national security, social, political, cultural and, more recently, environmental considerations. Some, or all, of these considerations play into other areas of the negotiations, where there have been large changes in the size and location of production capability. In all, these problems reflect rigidities in internal markets that stem from delays in dealing with changing economic realities.

Thus, the Uruguay Round issues are integral to the domestic policy debate--and this sets this Round apart from previous Rounds, which addressed mainly levels of border protection and the rules that govern it. This difference lies behind the difficulties that beset the Round from the beginning: it caused a four-year interval between initial efforts to get agreement on the need for a Round in 1982 and the setting out of its scope and terms of reference in 1986; it brought the negotiations to a four-month halt at the time of the mid-term review--from December 1988 to April 1989; 3/ and it derailed negotiations in Brussels.

Signs that many countries were not yet prepared to face, in the context of the Uruguay Round, the difficult decisions that would yield needed structural change in their economies have been visible throughout the negotiations. Thus, the efforts that allowed resumption of the negotiations

1/ These are: (a) to bring back under clear and predictable multilateral rules the large parts of trading activity that had moved outside the framework and that had begun to take on aspects of market sharing agreements; (b) to bring into the system important new areas such as services, trade in intellectual property rights (TRIPs) and trade-related investment measures (TRIMs); (c) to increase market access generally; (d) to increase equality of partnership between developed and developing countries; and (e) to reform the functions of the GATT to enhance its efficiency in carrying out its current responsibilities and to adapt it to the needs of the future. Also, see "Report on the Meetings of the GATT CONTRACTING PARTIES at Ministerial Level" (SM/86/256; 10/16/86).

2/ The term "country" used in this paper does not in all cases refer to a territorial entity that is a state as understood by international law and practice.

3/ "Report on the Mid-term Review of the Uruguay Round" (SM/88/282; 12/29/88), and "Report on the Conclusion of the Mid-term Review of the Uruguay Round" (SM/89/79; 5/2/89).

in April 1989 did not suffice to obtain other than political commitment to address those underlying problems that had given rise to a network of subsidies and noneconomic production in farming, managed trade in various sectors, defensive attitudes toward the establishment of foreign firms and a host of other distorting policies that the Uruguay Round seeks to address. These policies are the legacy of attempts to insulate certain sectors of the economy from the pressures of change--often for what may have appeared to be good political and social reasons. For a while, the inflationary period of the late 1960s and the 1970s had obscured the costly effects of allowing economies to become increasingly rigid in the face of fast change in technology and productive ability worldwide. With the disinflation of the 1980s, these rigidities could no longer be ignored and recognition of their costs contributed to the virtually worldwide adoption of a basic policy orientation that looks to market signals to guide economies and that seeks to reduce, if not eliminate, government intervention internally and externally.

With this basic policy outlook, many governments included market opening and trade liberalization as a major element in their economic programs although, in many industrialized countries there has been more emphasis on domestic deregulation than on external liberalization. In many instances, the fundamental shift toward liberalization of trade and investment has been motivated by self-interest, as emphasized by the President of Mexico, speaking to the GATT Council in February 1990. This shift in outlook could have brought a basic improvement in the environment for the trade negotiations. But countries appeared unable to bring these attitudes into the Uruguay Round framework, under which each liberalizing measure continues to be viewed as a "concession" requiring a counter-concession. Consequently, apparent agreements, based on political commitments in important negotiating areas such as agriculture, trading rules and services, fell apart to the extent that basic domestic problems were giving rise to defensive external policies not genuinely being addressed.

This has led to the question whether the agenda for the Uruguay Round was too ambitious 1/ and, therefore, constituted an impossible task from the outset. The answer then and now is that the Round's ambition sprang from necessity--a necessity to reverse trade policy trends that tended to export the effects of delays in domestically difficult policy decisions, often resulting in "hit and run" defensive actions. A comprehensive round is also necessary to modernize and strengthen the GATT, to bring it into the 21st century. Nevertheless, domestic and international markets remained dynamic despite the danger signals of increasing defensive actions in some

1/ World Economic Outlook, op. cit., pp. 94-101.

sectors and concentration of economic power/market management in sectors. ^{1/} This dynamism stemmed in part from the reorientation of economic policy noted above and the vigorous development of trade sectors that have benefitted from deregulation of domestic markets coupled with technological advances that tended to globalize business activity, particularly in services. Consequently, perhaps part of the support for the Uruguay Round is related to the extension and preservation of these dynamics. In this respect, while there is broad support for eliminating barriers and expanding trade opportunities, there remain basic tensions between the interests of "sunrise" and "sunset" industries, and it is often the latter that capture the greatest attention.

The breadth of the Uruguay Round's objectives, the complexity of the issues and the array of special interests, have resulted in numerous linkages. The decision at the beginning of the Round to create 15 separate negotiating groups (14 for issues relating to trade in goods and one for services) accommodated the need for each interest group to have its own forum. ^{2/} And indeed, the negotiating groups have increased mutual understanding of the relative importance of particular issues to particular negotiators or groups of negotiators. However, in moving to concrete results and seeking to agree on a balanced package, the tactical and functional linkages once again dominate.

At the political and tactical level, negotiating a balanced package on the GATT basis of reciprocity means that each negotiator will agree to some points contingent upon others agreeing in other areas. The major example is that some producers of agricultural products, who have an overriding interest in achieving fundamental changes in the trading rules for that sector, would hold back agreement in other areas until an agricultural package is in sight. Similarly, a number of developing countries might approach TRIPs and TRIMs flexibly if they saw that their interests regarding market access and rules would be met. Thus, at this stage many apparent areas of agreement remain ad referendum, and possible compromises in some areas are yet to be revealed.

On functional linkages, a major example is the effort to bring under the GATT trading activity that has remained--or moved--outside, largely for defensive reasons. Thus, integration of textiles and agriculture into the GATT and phasing out bilateral sectoral agreements (e.g., steel, electronics and automobiles) depend on improving those rules which, for lack of clarity

^{1/} It might be noted that the proliferation of such measures occurred during the longest economic expansion since the end of the Second World War, and was coupled with a rate of growth of world trade that outstripped that of production by some 50 percent during 1983-89, compared to 25 percent in the 1970s.

^{2/} For the structure of the negotiating mechanism, the objectives and the status of the negotiations in each group, see the Annex to this paper and also World Economic Outlook, op. cit., p. 101.

and difficulty of application, had pushed these sectors outside the GATT to begin with. 1/ In all these areas, the difficulties lie in balancing the benefits of bringing back into the multilateral system large bilaterally managed areas of trade without paying the excessive price of allowing too easy a recourse to defensive actions; an improved system should discourage recourse to such actions except as a last resort and include commitment to phasing them out over reasonable periods of time, preferably through sunset provisions.

II. Issues in the Negotiations

1. Agriculture

The need for reform of agricultural trading policies is not in question in the Round. But moves toward compromise remain difficult, even though it is generally recognized that liberalization can be neither rapid nor total. Reform proposals meet political obstacles in part because in subsidizing regions efficient producers reap large economic rents, which they are loath to give up, and inefficient ones have political leverage well beyond their numbers, partly owing to cultural and social reasons.

Agriculture is a sector riddled with economic distortions that have achieved a life of their own, with some farmers being paid not to produce, while others are stimulated to increase production, sometimes within the same region. The result has been rising agricultural support costs, which have burdened taxpayers and consumers in the OECD countries alone to the tune of almost \$300 billion in 1988, equivalent to about 3 percent of OECD consumption expenditure and 10 percent of savings in that year. 2/ Not surprisingly, it has also led to a proliferation of direct and indirect import barriers and export subsidies. These place efficient producers at an unfair disadvantage, give rise to needless import dependency, distort the structure of food consumption and hamper realization of goals for more efficient agricultural policies in those developing countries that have come to rely on excessive grant-in-aid food receipts for surpluses generated through subsidies.

1/ Recourse to bilateral measures has been justified by their users by the difficulty of obtaining timely and adequate corrective measures within the GATT procedures, none the least because of the cumbersome manner in which the dispute settlement mechanism works. At the same time, there is a perceived need to have reasonably easy access to safeguard mechanisms--be it to deal directly with disruptive import penetration or to move against unfair practices through antidumping and countervailing actions.

2/ Based on data from Agricultural Policies, Markets and Trade: Monitoring and Outlook--1990, Organization for Economic Cooperation and Development (Paris, 1990).

The need to bring order at least to the cost-effectiveness with which noneconomic goals are being pursued is not in dispute; the difficulties lie in how, and over what time frame, this can be achieved. The market access question is important and obviously difficult, but could, most likely, be bargained out. The crux of the problem is the treatment of export subsidies. The United States, supported in the main by the Cairns Group, 1/ looks to specific reductions in export subsidies (by 90 percent from their 1986/88 level, spread over a ten-year period beginning in 1991) with accompanying commitments on reductions in internal price supports and import barriers. The EC's original approach, supported in part by Japan, the Nordic countries, and Switzerland, was based on a reduction in the level of total assistance (by 30 percent over a ten-year period from its 1986 level).

This latter approach would automatically narrow the gap between world and domestic prices, but domestic prices would continue to be cushioned by a fixed margin of Community preference and a variable buffer to protect against exchange rate fluctuations and world market price changes. Within the overall level of assistance, the EC would "rebalance" protection by raising import barriers for certain products with currently low bound tariffs (e.g., oilseeds), as barriers are lowered on others. In the view of the more efficient agricultural producers, this approach holds little, if any, hope for improved market access and better world market conditions. They argue that these require direct remedies and commitment to a continuing effort. Trade developments of the past two decades seem to support this view: for example, the EC's share of world exports of agricultural products rose from 24 percent in 1970 to 36 percent in 1988, just below the almost 38 percent held by the Cairns Group and the United States together over that period. Although it is not possible to quantify the effects on the structure of trade of lower levels of EC protection and elimination of, or at least no increase in, export subsidies, it is still illuminating that a stable export share for the EC between 1970 and 1988, *mutatis mutandis*, would have implied an increase in the exports of other suppliers of some US\$43 billion.

Although some flexibility in negotiating approaches seemed to emerge in Brussels, including the possibility of a specific commitment on export subsidies, the absence of a dynamic that would assure permanence of reductions in export support and of increases in market access beyond the EC's target date of 1995 was a major element in the suspension of the negotiations in December. The subsequent efforts of the EC to review fundamentally the working of the internal support system--if only for budgetary reasons--is providing a better basis for flexibility. At this point, this flexibility has resulted in agreement to conduct negotiations to achieve specific binding commitments in each of the areas of agricultural

1/ Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

support, i.e., to reduce domestic support, market access and export subsidies. Nevertheless, the time frame remains complicated.

2. Textiles and clothing

In contrast to agriculture, in textiles and clothing there is near agreement on gradually reintroducing GATT rules and disciplines. However, the nature of the potential agreement suggests minimal initial liberalization, and deliberate "backloading" in the lifting of restrictions creates doubt about its full implementation.

Since 1961 trade in textiles and clothing has been subject to special restrictions as the main importers (industrial countries) have asserted the need for protection against "market disruption" by lower cost suppliers (usually developing countries). Thus, under the current Multifibre Agreement (MFA), some 50 percent of textiles and clothing trade is regulated through bilateral quotas in a continued significant breach of the GATT's nondiscrimination principle. In clothing, developing countries provided 82 percent of the combined imports of Canada, the EC, Sweden and the United States in 1987; almost two-thirds of this was subject to MFA restrictions and two-fifths to binding restrictions. ^{1/} With developing and Eastern European countries relying on textiles and clothing for almost 40 percent of their exports of manufactures, and with potential higher value-added production hampered by fears that successful investment would lead to a broadening of quotas, developing countries in particular insist that integration of the sector into GATT be based on a phase-out of the MFA.

Under the present draft text, the MFA would be phased out in three stages over a ten-year period. ^{2/} But only 45 percent of covered products would be liberalized before the final stage and countries would be able to choose when what products would be brought under the GATT. Consequently, liberalization of the most sensitive products could be left to the end; this raises doubts about the digestibility, political and otherwise, of achieving full integration into the GATT by the specified terminal date. Furthermore, during the phase-out countries could introduce discriminatory restrictions on those products not already made subject to the GATT or on which they do not have existing bilateral arrangements. This selective safeguard mechanism was considered necessary to obtain EC and U.S. agreement--both with powerful textile lobbies--and, perhaps, could ease EC acceptance of nondiscrimination in safeguards generally (see below).

^{1/} R. Erzan, J. Goto and P. Holmes "Effects of the Multi-fibre Arrangement on Developing Countries' Trade: An Empirical Investigation"; in Textiles Trade and the Developing Countries, Carl B. Hamilton (ed.), World Bank (Washington, 1990).

^{2/} Developing countries initially looked to a shorter period, but some, which are currently reaping economic rents in a cartel-like arrangement such as the MFA, reconsidered their position, leading to the current compromise.

All these elements make it unclear that the phase-out will be trade-expanding, particularly in the initial stage; but this may be outweighed by the fact that it would provide the basis for making bilateral management of trade in a sector unacceptable under multilateral rules and, thereby, halt the drift in that direction. The latter, however, as well as implementation of the phase-out of the MFA, is critically dependent on strengthened GATT rules, particularly on antidumping and counterfeit trade, and on the readiness of developing countries to open their own markets.

3. Other market access issues

Progress in the other market access areas--tariffs, nontariff measures (NTMs), natural resource-based products (NRBPs), and tropical products--is both interlinked and partly linked to agriculture. ^{1/} The narrow range of NRBPs and tropical products has limited the scope for trade-off opportunities, so that the actual negotiations are part and parcel of the general tariff negotiation. As it is the overall incidence of border protection that matters, few countries are ready to commit to lower NTMs until they have a clearer view of the outcome in tariffs, and vice versa. Willingness to reduce NTMs also depends on the outcome in the rule-making areas, e.g., safeguards. On tariffs, industrialized countries are looking especially to tariff reductions and bindings by developing countries, and the latter are primarily interested in lower tariff peaks and reduced escalation.

Negotiations on tariffs have proved difficult, in part because previous Rounds reduced average MFN tariff rates on manufactures in industrial countries to about 5 percent, leaving most industrial participants with tariffs concentrated in sensitive sectors. Moreover, the low averages frequently disguise both tariff peaks and tariff escalation. In many developing countries average MFN tariffs continue to be high, at times at prohibitive levels; moreover, few tariffs are bound. Questions of how to address peaks, escalation and bindings delayed the start of actual tariff negotiations until January 1990. But at this point, a substantial package may be within sight, especially if it incorporates the U.S. offer of a so-called "zero-for-zero" option, under which, based on reciprocal action by all major trading nations, some 2,000 industrial tariff lines would be reduced to zero or very low rates. But this offer faces resistance, both because it requires inclusion of sensitive items (e.g., fish for the EC and Nordic countries) and as it is thought by some that the U.S. offer on textiles and clothing would do little to improve access. Nevertheless, "zero-for-zero" may be accepted in certain areas, including chemicals, pharmaceuticals and, perhaps, steel. Full "zero-for-zero", together with the unlocking of further offers once the agricultural deadlock is broken, would allow tariff cuts to reach the 30 percent target; otherwise cuts might fall short by between 5 to 15 percentage points. A positive outcome could

^{1/} See Annex for list of commodity coverage of NTMs, NRBPs and tropical products.

also result in a sizeable increase in bindings by developing countries, 1/ and possibly significant reductions in their tariffs. This would improve the permanency of the recent trade liberalization in many developing countries and be a major step toward the active partnership sought by the industrial countries.

Greater reciprocity by developing countries on tariffs depends in part on reductions in tariff escalation. For example, most industrial countries have low duties on unprocessed tropical beverages, whereas prepared coffee and cocoa frequently bear tariffs of up to 20 percent, a point of major concern to producing countries. While the mid-term review brought an early harvest for MFN rates on tropical products, it did little on escalation. 2/ Current offers, particularly by the United States and the EC, could improve this materially. But, as elsewhere, the prospect of significant liberalization has caused nervousness on the part of countries that benefit from regional preferences (e.g., under the Lomé Convention); these countries look both to the lowering of trade barriers from other developing country producers and to increased aid flows to compensate losses.

4. Rules 3/

Improved market access goes hand in hand with strengthened trade rules to ensure its predictability, which depends in turn on a credible dispute settlement mechanism that allows speedy resolution of disagreements about the interpretation and application of the rules. Rules, therefore, must ensure that trade measures are taken under clear conditions and are limited in time. By contrast, recently imposed measures largely involved unilateral and bilateral actions of dubious GATT legality and were implemented with little predictability; for example, the proliferation of antidumping and countervailing actions (particularly on the part of the United States and the EC), and the length of time between their initiation and definitive action, may discourage small and medium-sized firms from entering certain markets. Consequently, bringing clarity and consistency to trading rules and dispute settlement is key to achieving the objectives of the Round. But the need to balance the rights and obligations of signatories, in view of the great diversity of interests, and the imperative of not losing the objectives of consistency and appropriate tightness in the process, has

1/ A number of developing countries (particularly Latin American) have offered to bind either the entirety of their tariffs or all their duties on industrial products.

2/ As a result of the agreement at the mid-term review, MFN tariff rates on tropical products fell from an average of 5.9 percent to 5.3 percent in the case of the EC, from an average of 6.1 percent to 5.7 percent for imports into Japan, and remained constant at an average of 2.6 percent for U.S. imports of tropical products.

3/ Negotiation issues for the main rules are discussed below; remaining issues are discussed in the Annex.

created great difficulty. Thus, in the search for compromise in the important areas--safeguards, antidumping and subsidies--the price for ruling out grey-area measures may turn out to be high in terms of allowing relatively uncontrolled access to defensive action. These difficulties are reflected also in the adherence to the commitment of participants at the beginning of the Round not to use measures inconsistent with the GATT during the negotiations and, indeed, to roll them back so that they could be eliminated by the Round's end. Little has happened in that respect: few rollbacks have been notified and although complaints of violation of the standstill have not been numerous, resort to grey-area measures still occurs. By contrast, there has been clear progress toward a credible dispute settlement mechanism.

a. Safeguards

The need to provide reasonable access to trade actions under GATT aegis has been clearly evident in the area of safeguards (for temporary protection of industries injured by import competition). Since the mid-1970s, GATT safeguard rules have been largely bypassed; instead, countries have taken recourse to grey-area measures, such as voluntary export restraints (VERs), that restrict imports of a product from selected sources. 1/ Re-establishing GATT control over such measures has been central to the safeguards negotiations, with the key issue being whether or not actions should be applied selectively. The EC argued on the side of selectivity, while smaller industrial and developing countries have argued non-discrimination as they fear that selective measures both increase their vulnerability to pressure from major traders and can lead to market sharing arrangements. Recently, the EC modified its position with a proposal for "modulated" quotas, under which all suppliers would be subject to restraint; but the degree of restraint would be tailored, subject to strict limits, to the perceived contribution of individual suppliers to disruption of domestic industry. It is not yet clear whether this variant of selectivity would meet the above concerns.

Apart from selectivity, the elements of an agreement on safeguards seem clear, although their implications for the trading system are less so. Under the agreed negotiating text, countries could assert injury to domestic producers and take measures, initially largely beyond multilateral questioning; these could be in place for five to eight years and trading partners could not initiate compensation or retaliation procedures during the first three years at least; they would be price-based, in principle, but "modulated" quotas could change this; they would be eased progressively and subject to multilateral monitoring and dispute settlement procedures. In return, participants would rule out the use of grey-area measures and phase

1/ Unlike GATT-legal safeguards, VERs escape multilateral surveillance and tend both to be easy to negotiate and not to carry the probability of compensation to, or retaliation by, affected suppliers (in that they generate economic rents that accrue in part to the suppliers).

existing ones out, or bring them into GATT conformity, over a three- to four-year period. However, access to safeguards would be relatively easy, opening the danger of first-resort use. The main benefits of the agreement would lie in the increased transparency in the use of safeguard measures, the progressiveness of their phase-out, and their being subject to multilateral surveillance.

b. Antidumping

Abuse is central to the negotiations on antidumping. Antidumping actions are meant to protect domestic producers against predatorially priced imports, but they may now have become a preferred protective instrument in some countries. 1/ This has given rise to two basic negotiating points: first, countries often subject to such actions, led by Japan and other Asian exporters, want clear rules to prevent the unpredictability of actions so as to avoid harassment and increases in the cost of exporting. They suggest an agreed methodology for calculating dumping margins and strict limits for the period between initiation and definitive findings of antidumping actions. However, even an agreed methodology may not rule out unilateral interpretation of data or shorten sufficiently the period of uncertainty under which an exporter has to operate once an action is initiated. Second, some frequent users of antidumping actions (the EC and the United States) want the rules to cover circumvention of antidumping duties, including through assembly operations that use dumped inputs from domestic or third markets. But, the framing of rules to determine "intent" in investment decisions is difficult in the face of internationalization of production that can make exporting via third countries, or moving assembly operations into markets, an economically sensible undertaking. There is also the danger of loss of consistency in dealing with local content rules. For example, in framing antidumping rules some consider local content below a certain threshold evidence of circumvention, while most industrial countries would eliminate local content rules in TRIMs (see below).

The fact that the two basic issues in the antidumping negotiations pit the interests of those subject to actions against those initiating them should provide a basis for compromise. However, so far this has eluded negotiators, although the need to find a solution is the more pressing as failure to do so would also most certainly delay implementation of, if not agreement to, phasing out the MFA.

1/ Since 1980 the four leading users of antidumping measures (Australia, Canada, the EC and the United States) have initiated over 1,000 investigations, of which some 50 percent have led to action. Further, an increasing number of developing countries have adopted, or are in the process of writing, antidumping legislation.

c. Subsidies

Bringing clarity into the use of subsidies mirrors to some extent the problems in antidumping, particularly when trade distorting subsidies are the basis for countervailing actions. Thus, the problems of unpredictability with harassment potential and circumvention are engaged in this context as well. The use of subsidies is global, springing from social, environmental, cultural and political pressures; in many OECD countries they amount to 2 or 3 percent of GDP, and in developing countries they are often used to target industrial development and exports. Although there is a virtually worldwide move toward reduction of subsidies--to strengthen responses to market signals and to relieve budgets--these efforts have taken on Herculean aspects, as they involve difficult internal policy dilemmas of which trade distortion is only one aspect. Addressing them primarily in the context of trading rules has created basic difficulties, especially for the EC, which has to balance the domestic priorities of its member states while retaining sufficient flexibility to balance its negotiating posture vis-à-vis other participants. In this respect, moves by the EC to limit sector-specific subsidies, in the context of completing its internal market integration by 1992, may assist its Uruguay Round position; but the timing may be awkward.

Difficulties in controlling subsidies and in subjecting them to multilateral disciplines have been some of the reasons why the GATT Subsidies Code has proven inadequate. The central point is whether certain subsidies should be prohibited outright. The United States would go furthest on outright prohibition, including all domestic subsidies that inherently distort trade and, obviously, all export subsidies as well. The EC, Japan, Korea, the Nordic countries and Switzerland seek to treat agricultural export subsidies within agriculture, but would prohibit other export subsidies, including those that relate to export performance. However, neither Japan nor the EC would prohibit domestic subsidies. The EC would deal with these on a case-by-case basis, depending on clearly demonstrated negative trade effects, and would rely on tightened countervailing measures. This is in contrast to its position on TRIMs, where it looks to the prohibition of measures that distort trade--again, consistency across the negotiating spectrum will need to be found.

Most developing countries, few of which have acceded to the GATT Subsidies Code, resist any outright prohibition, arguing that subsidies are an essential development instrument; however, given domestic budgetary pressures and to fend off their own vested interests, a number might well agree to limitations on industrial export subsidies.

5. Trade-related investment measures

As with subsidies, many participants regard certain TRIMs as a form of protection. Most industrial countries hold that TRIMs, such as local content and trade balancing requirements, should be prohibited as they are

contrary to present GATT Articles (on national treatment and the elimination of quantitative restrictions, respectively); further, prohibition also should include export performance requirements, which currently are not covered by the GATT. By contrast, while not questioning their GATT obligations, many developing countries maintain that TRIMs are necessary for development purposes and opt for a case-by-case approach that addresses clearly identified adverse trade effects only. A further question is whether disciplines should apply only to requirements put upon investors, or also, as argued by many OECD countries, to those TRIMs that offer or withdraw incentives, such as subsidies or tax advantages.

The current lack of an agreed negotiating text appears to be more tactical than substantive. In Brussels, it appeared that many developing countries could accept the prohibition of those TRIMs that would be regarded as running counter to GATT rules. Such an approach could provide the basis of a compromise, which earlier seemed elusive as they had blocked genuine negotiations in the fear that a TRIMs agreement could be the leading wedge toward a multilateral investment code which, they believe, would impinge on national sovereignty and development priorities.

6. Trade-related aspects of intellectual property rights

Similar national sovereignty concerns dominated the early discussions on TRIPs. However, developing countries agree on the need to deal with trade in counterfeit goods, which by one account is estimated to have grown to 3 to 6 percent of world trade. ^{1/} The debate on the protection of intellectual property rights (IPRs) has generally sought to balance protection for the holders of IPRs with the national objectives of developing countries, including technology transfers and avoidance of high charges for patent rights, at least in certain socially sensitive areas, such as pharmaceuticals. Basic agreement seems possible on substantive norms to protect IPRs, and on multilateral disciplines to enforce those norms. There remains a question on where to lodge enforcement of rules and disciplines on IPRs--in GATT, including its dispute settlement mechanism, or elsewhere.

7. Dispute settlement

Credible and effective dispute settlement is essential if strengthened rules are to work. As a result of the mid-term review, the work of the dispute settlement panels was speeded, but adoption and implementation of panel findings remain slow. Negotiators now are close to an agreement that could improve this situation materially. In particular, it provides that, unless the GATT Council decides to the contrary, panel reports would be adopted automatically and retaliation would be possible if panel findings

^{1/} Gary Clyde Hufbauer, The Free Trade Debate, Reports of the Twentieth Century Fund Task Force on the Future of American Trade Policy, Twentieth Century Fund (New York, 1989).

were not implemented within defined time limits. This contrasts with present procedures, which require an explicit Council decision for adoption of findings, normally on a consensus basis. In return for injecting some automaticity into dispute settlement procedures, countries would renounce the use of unilateral measures inconsistent with GATT rules. At issue is the use of VERs, the operation of Section 301 of the U.S. trade law, and the tendency for other countries to emulate that law. The United States is unlikely to undertake such a commitment without appropriate results on dispute settlement and elsewhere in the Round. As many countries take the same position, this essential leg of the Round's stool could be lost if other elements of the package lag.

8. Services

A services agreement is a major element in a strong package. Negotiating difficulties include the problems associated both with bringing under one framework a "supersector" comprising very diverse subsectors and the tendency to bring existing language, some of which is under negotiation, from the GATT into the agreement. Thus, while some look to the formulation of a services framework to be sui generis, unencumbered by some of the apparent problems of the traditional GATT, the fact that GATT language reflects accommodation of specific interests indicates that most departures from such language would require "payment". Thus, the emerging framework suggests inclusion of some GATT ambiguities.

The main issues in the framework negotiations are threefold:

(1) Devising appropriate rules for trade in services, especially as delivery of a service frequently depends on the right of establishment. Negotiation of the latter falls outside the limits of the traditional GATT and, therefore, is being challenged by some; safeguard provisions are being formulated with an eye to the agreements being forged on the goods side and dispute settlement provisions have only begun to be addressed. In this context, a point of debate is whether to allow cross-retaliation in case of disputes. This concerns the question whether countries could retaliate across services sectors--a particular concern of the Financial Services Group--and/or across services and goods as well;

(2) Coverage is a central difficulty, as a number of service sectors are managed by bilateral treaties (civil aviation), and others are effectively closed to genuine competition, either to accommodate strong domestic and cartel-type interests (maritime services) or because they are in the hands of government monopolies (telecommunications in most countries);

(3) The "free-rider" issue, which springs from the fact that in a number of areas and in a number of countries, market access has been largely unregulated, if not relatively free. This raises the question of how to bring along those who are reluctant to liberalize access while maintaining

unconditional MFN. Thus, the United States proposed a form of conditional MFN, based on the degree of access participants are willing to bind, while the EC seeks to address this issue through sectoral nonapplication, based on a participant's liberalization commitments for a particular sector. The latter creates problems for countries that seek a global approach to the negotiations, intending to trade off a higher level of commitments in one sector against a lower one in another.

These problems carry over into the elaboration of annexes that seek to fit the provisions of the overall services framework to the specific aspects and requirements of individual sectors. For example, negotiators on financial services developed a proposal that would relate the obligations of a country to the level of development of its financial sector. This involves a so-called two-track approach, in which countries that opt for the first track accept a broader range of obligations than those in the second track. There would be pressure on countries to adopt the first track, first, because their market standing might be compromised if they insisted that their financial sector could accept only a "lower order of obligations", and second, because of the threat of nonapplication by other participants. However, such an approach would not work for sectors where market perceptions do not play a major role. Thus, the "free-rider" issue remains a problem in substance even if, as appeared in Brussels, the United States were willing to drop its conditional MFN stance.

A positive consequence of the detailed deliberations has been an ongoing reassessment of the benefits to be derived from a services agreement, both by those who were the main proponents and those who were initially unconvinced. As the ardor of the former tempered during the discussions, some of the latter began to see material advantages. With mutual interests more apparent, both on scope and limits, the chances for a working agreement seemingly improved and there now is a large constituency in favor of an agreement, including most major traders among developing countries.

III. Issues of Special Interest to the Fund

It is not possible at this stage to have a firm view of the time frame for achieving a Uruguay Round package or of its content. With the recent resumption of negotiations, an agreement on a basic package containing firm commitments to the essentials may emerge, but details will have to be negotiated over a time period that some would put at several months and others at a year or more. Whatever the package, a number of areas under discussion are of particular interest to the Fund. These include: the rights and obligations of Fund members under a services framework; the Fund's relationship with GATT; the Fund's role in fostering trade liberalization; efforts to improve the transparency of the international trading system; and GATT's role in contributing to international policy coherence.

With a positive outcome, a Uruguay Round package most likely would include provisions for a multilateral agreement on services that would establish disciplines for the sector, including payments for covered services, provisions for progressive liberalization and conditions for safeguard action. Elements of a multilateral agreement on services may overlap with those areas that already fall within the jurisdiction of the Fund, 1/ in particular, relating to the Fund's jurisdiction over exchange restrictions and exchange rate policies. Most negotiators are prepared to give primacy to the Fund in those areas where the Fund has jurisdiction and, to this end, have generally deferred to the Fund staff in defining these areas. 2/ Moreover, negotiators have contemplated a formal role for the Fund in assessing the balance of payments situation where safeguard actions are permitted under the multilateral agreement for balance of payments reasons.

On the GATT side, the Fund already plays a role in the Balance of Payments Committee by assessing the balance of payments situation of members of the Fund which invoke the GATT's provisions on using trade measures for balance of payments needs. At this point, industrial countries are seeking to tighten the procedures under which such defensive actions can be taken. They argue that in the past such restrictions have been maintained for an inordinate length of time, measures often have been of a nature not conducive to their phase-out (i.e., they have not been market oriented), and there has not been sufficient transparency regarding either the measures or the general policies under which they are taken. Developing countries argue that there is no reason to make basic changes in the balance of payments Articles and have opposed all attempts to discuss this in the context of the Uruguay Round. Within this debate, the role of the Fund is not at issue; nor is it with respect to a possible similar function in a services agreement. It may be noteworthy that recently several countries have revoked the balance of payments cover, whereas only one has invoked it. 3/

The promotion of trade liberalization is part of the Fund's mandate, as set out in Article I. In this respect, over the past years a significant number of countries have incorporated ambitious trade liberalization policies in their Fund-supported adjustment programs, including removing or

1/ See "The Role of the Fund in the Area of Services under its Articles of Agreement - Informal Staff Note for the Uruguay Round Group of Negotiations on Services" (SM/90/7; 1/8/90).

2/ At an appropriate stage of the negotiations a paper will be put forward for Board consideration of issues in those areas in a potential agreement that involve the Fund directly.

3/ The Czech and Slovak Federal Republic. Among those revoking, Korea did so as part of a lengthy negotiation in the Committee and is lifting its remaining restrictions over an agreed time schedule; in the cases of Argentina, Ghana and Peru, it has been part of a wholesale lifting of external restrictions in the context of national economic policies to remove market impediments.

replacing quantitative restrictions by tariffs, 1/ streamlining tariff schedules, including reducing tariff peaks and narrowing ranges, 2/ eliminating import licensing requirements, 3/ and removing export subsidies and taxes. 4/ Although it is widely recognized that the prime benefits accrue to the reforming countries themselves, the success and, therefore, the sustainability of these policies in part relies on an open multilateral trading system. Thus, the impact of unilateral trade liberalization would be enhanced if the Uruguay Round results both in improved market access and in reinforcing rules that guarantee against unpredictable changes in such market access. By contrast, an unsatisfactory outcome of the Uruguay Round could worsen the external environment and this would of course be taken into account in the context of Fund surveillance and program formulation.

Furthermore, without a successful Uruguay Round outcome, the trend toward concluding special bilateral and regional trading agreements, which currently runs parallel to multilateral commitments, is likely to accelerate and in a way that may cut away from this parallelism. Ideally, the formation of regional arrangements would work toward member countries' opening their markets globally as well and, therefore, there is a presumption that while they would be trade-diverting, they also would generally be trade-creating. It was on that basis, for example, that the Canada-United States Free-Trade Agreement was put forward. However, the belief that such trade creation may only be a minor part of the dynamic of regional groupings has given considerable impetus to their expansion, if not formation. Most notable examples are the recent spate of EC membership and association applications, the prospect of a European Economic Space and the moves toward more free trade agreements in the Western Hemisphere. This has heightened the fear that, in the absence of a positive outcome of the Uruguay Round, the pressure to form defensive groupings, or seek associations for defensive reasons, would become irresistible. Moreover, if market access were reasonably assured on a regional basis only, production decisions within a country would be based on the regional rather than general market signals and could fall short of potential. Obviously, the absence or otherwise of a possible trade bloc mentality and of possible intensification of unilateral and bilateral trade policies, would be of particular interest to the Fund.

In awareness of the trend toward regionalism, the negotiators have addressed the GATT Article that relates to the formation of regional trading arrangements. Such arrangements by their nature depart from the GATT's MFN principle, but are allowable to the extent that border protection vis-à-vis

1/ For example, Argentina, Bangladesh, Ecuador, El Salvador, Guyana, Kenya, Pakistan, Poland and Venezuela.

2/ For example, Argentina, Ecuador, El Salvador, Kenya, Mexico, Morocco and Pakistan.

3/ For example, Ghana, Hungary and Mexico.

4/ For example, Bolivia, El Salvador and Jamaica.

third parties remains unchanged in the case of a free-trade area and its net incidence is not changed in the case of a customs union. As there is great difficulty in determining whether and to what extent the incidence of border protection has changed, there also is considerable potential for dispute. The current text would clarify the method for assessing the extent of changes in border protection for customs unions, thus adding partially to the transparency of the trade effects of regional arrangements and, thereby, providing a basis for readier dispute settlement.

In the efforts to improve the functioning of the multilateral trading system, negotiators agreed at the time of the mid-term review to establish, experimentally, a Trade Policy Review Mechanism (TPRM) to contribute to greater transparency and understanding of the trade policies and practices of participants. The TPRM has begun to improve transparency by bringing together all elements of trade policy for the country under review and by examining the impact of these policies on the system as a whole. As such, it is also providing a positive function in focusing attention in national capitals on these issues. Consequently, Fund missions, both for Article IV and program discussions, may be able to draw on a greater information base and find better interlocutors. However, the fact that TPRs will take place at six, four and two year intervals, depending on a country's importance in world trade, in most instances would limit their usefulness as inputs into the Fund's periodic needs.

Another area of interest to the Fund is the Round's intent to increase the GATT's contribution to improved coherence in global economic policy-making, including strengthened cooperation with the Fund and the World Bank. With regard to the latter, the GATT's Director General has conferred with his Fund and Bank counterparts on the scope for enhanced cooperation. As previously reported, 1/ negotiators have formulated two approaches--a pragmatic, "bottom up" one, which has been supported by the heads of the three institutions as well, and one that would mandate formal institutional links from the top down on the basis of a written tripartite agreement. As the outlines of changes in the trading system stemming from the Uruguay Round and associated possible changes in the mandate of the Secretariat are unclear at this time, negotiators have agreed that at some appropriate time down the road the Director General should once again confer with his counterparts in the Bretton Woods institutions. The consideration of closer ties between the institutions also depends upon whether it is intended that the GATT evolve toward a World Trade Organization (WTO), which would serve to bring all multilateral trade treaties under one roof. If a WTO were to materialize, contacts between it and the Bretton Woods institutions would need to be considered not only in terms of enhanced cooperation, but also to assure the absence of jurisdictional conflicts and an appropriate complementarity of functions and responsibilities.

1/ See "General Agreement on Tariffs and Trade (GATT) - Report of the Director General to the Trade Negotiations Committee" (SM/89/198; 9/23/89); and World Economic Outlook, op.cit., p. 99.

A further aspect of how to improve coherence in global economic policy-making is in the setting out of the elements that shape trade, monetary and financial policies. The EC has proposed that a declaration on this issue be adopted at the end of the Uruguay Round and a partly bracketed draft of the basic points has been formulated. There is agreement that a stable economic environment that includes exchange and interest rate stability is conducive to a positive trading environment. But there is disagreement about how this should be achieved. The EC puts the emphasis on exchange rate and interest rate stability as the anchors of the system, with a causal relationship running from such stability to stability in the economic environment. The United States would improve macroeconomic coordination to help achieve underlying conditions that would yield greater stability in what is seen as the resulting variables, e.g., exchange rates and interest rates. The EC's proposals mirror those it put forward in other fora, but in the context of the Uruguay Round they are also seen as buttressing its view that domestic producers, particularly in agriculture, should be insulated from the effects of exchange rate fluctuations. Given the difficulties in the major negotiating areas of the Round, the systemic issues, including a declaration on coherence, have taken a backseat, and will be left to the end of the Round, with a declaration on coherence to be a political document agreed in the context of the balance of the overall package.

IV. Conclusion

The external environment within which Fund members formulate their adjustment and growth objectives is heavily conditioned by the trade opportunities it offers and the rules by which these are governed. The latter, in turn will be affected fundamentally by the outcome of the Uruguay Round. This has become increasingly clear with the difficulties Uruguay Round negotiators have faced in the past several months, including the possibility of losing the whole Round. Thus, virtually for the first time during the Round, businessmen worldwide are making a concerted effort to voice their interest in not allowing the Round to be derailed. Such pragmatic evidence of the potential positive contributions of the Round, but also realistic assessments of the cost of failure, remain necessary to overcome the constant negative voices. Obviously, for some time the glass would only be half full--and indeed for some half empty--as an improved trading environment, like any adjustment policy, takes time to show positive effects. Similarly, failure would not only lose what could have been gained, but would involve backward movement. Momentum is needed not only to overcome the difficulties in agriculture, but also to move forward the considerable amount of work that still needs to be done, particularly on tariffs, other market access areas and services. A standstill here could well end in a rollback of what already has been achieved.

The recent resumption of the negotiations obviously constitutes a necessary step toward success, but it is not sufficient. It needs to be coupled with genuine commitment to confronting and solving the underlying problems that have already stopped the Round twice. It would be ironic if the virtually worldwide trend toward national policies to allow economies to be guided by market signals were to be frustrated by the inability to provide an open multilateral trading environment to sustain that trend.

Uruguay Round--Structure and Summary of the Status of the Negotiations

The negotiations are conducted by the Trade Negotiations Committee (TNC), with the subsidiary bodies, the Group of Negotiations on Goods (GNG) and the Group of Negotiations on Services (GNS). The GNG has 14 negotiating subgroups.

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
1. Tariffs 2/	One-third trade-weighted tariff cut, reduction of peaks and escalation; increased tariff bindings.	Achieving targeted cuts. Tariff peaks in sensitive sectors and tariff escalation.	Agriculture; tropical products; natural resource-based products; non-tariff measures.	(i) Bilateral negotiations underway; difficulty that some offers do not cover agriculture. (ii) Negotiations center on the U.S. "zero-for-zero" offer. 2/ (iii) Offers of many developing countries would significantly increase bindings.
2. Nontariff measures (NTMs) 3/	(a) Significant reduction of NTMs by all participants	(i) Ensure that tariff cuts are reinforced, not offset. (ii) Ensure against reversals.	Agriculture; tariffs; rule-making.	Bilateral negotiations under way. Treatment and consistency of certain NTMs, such as VERs, discussed in other groups. Some countries ready to bind NTM reductions.
	(b) Establish and harmonize rules of origin; assure they do not become trade barriers.		Balanced package.	Text agreed <u>ad referendum</u> .
	(c) Establish multilateral rules to minimize delays in preshipment inspection.		Balanced package.	Text agreed <u>ad referendum</u> .

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
3. Natural resource-based products (NRPBs) 4/	Fulllest liberalization.	(i) Tariff escalation. (ii) Product coverage: EC would include fishing resources; others see this covered by Law of the Sea.	Tariffs; NTMs; subsidies.	Bilateral negotiations under way; but as the product coverage is narrow most proposals made in tariffs and NTMs.
4. Textiles and clothing	Phase out Multifibre Agreement (MFA) and integrate the sector into GATT.	(i) Length of phase-out. (ii) Percentage of products to be covered in each stage of the phase out.	Rule-making, particularly anti-dumping; TRIPs	Elements of agreement appear in place: three-stage phase-out over 10 years; backloaded; subject to conditions, countries can use selective safeguards.
5. Agriculture	(a) Establish a market-oriented trading system.	(i) Extent of specific commitments on reduction of internal support, export subsidies and border protection; EC would "rebalance," by raising some bound tariffs. (ii) Food security (e.g. rice).	Key to further progress in the rest of the Round.	Wide gap between proposals of United States - Cairns Group and EC. EC in process of reviewing agricultural support, which could provide basis for flexibility but complicates time frame. Food security issue under discussion.

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main Goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
	(b) Establish rules to clarify and harmonize sanitary and phytosanitary measures.	(i) How to cover state, provincial and local governments.	GATT compliance by subgovernments.	Agreement near on text.
6. Tropical products 5/	Fulllest liberalization.	(i) Tariff escalation.	Agriculture; tariffs; NTMs.	Bilateral negotiations under way.
		(ii) Product coverage.		Some offers exclude agricultural products (see tariffs).
		(iii) Loss of regional preferences of some countries.		Some countries may negotiate compensation for loss of regional preferences.
7. GATT Articles				
(a) Bound tariff schedules, under Article II:1(b)	Also bind "other duties and charges."		Tariff bindings.	Text agreed <u>ad referendum</u>
(b) Balance of payments provisions (Articles XII, XIV, XV and XVIII:B)	Industrial countries seek stronger disciplines; developing countries see no need for change.		Market access for developing countries.	Views remain unchanged.

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
(c) State-trading enterprises (Article XVII)	Enhance transparency; improve notification and review procedures.		Balanced package.	Text agreed <u>ad referendum</u> .
(d) Customs unions and free-trade areas (Article XXIV); GATT compliance by state, provincial and local authorities (Article XXIV:12)	Enhance transparency and disciplines re formation and enlargement of regional arrangements; improve compliance of subgovernments.	(i) Ensure that regional groupings do not raise trade barriers. (ii) Ensure that members take all reasonable measures for GATT compliance by subgovernments.	Balanced package.	Agreement near on text.
(e) Waivers from GATT obligations (Article XXV:5)	Time limits and stricter surveillance.	Time limits on existing GATT waivers, incl. a 1955 U.S. waiver on some agricultural import restrictions.	Agriculture.	Agreement near on text.
(f) Renegotiation of tariff bindings (Article XXVIII)	Broaden number of countries with negotiating rights when a tariff binding is broken.		Tariff bindings by developing countries.	Text agreed <u>ad referendum</u> . Country, with highest ratio of exports of the product in question to its total exports, added.

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
(g) Nonapplication of the GATT (Article XXXV)	Allow use of nonapplication provisions after start of bilateral tariff negotiations with a prospective member.		Market access; services.	Agreement near on text, but some opposition on grounds that it would weaken negotiating position of GATT applicants.
(h) "Grandfather clause" (in Protocol of Provisional Application), under which inconsistent measures that predate GATT membership are maintained.	Phase out the clause under agreed time limits.		Elimination of clauses in some Accession Protocols to apply agricultural import restrictions.	Agreement near on text.
8. MTN agreements and arrangements (Tokyo Round codes).				
(a) Antidumping	Strengthen rules on antidumping measures.	(i) Prevent harassment.	Textiles and clothing; dispute settlement.	Negotiations are under way; compromise not yet found.
		(ii) Prevent circumvention of duties.		

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
(b) Customs valuation	To make code universal; include measures on falsification of customs valuation and transitional period for implementation by developing countries.		Balanced package.	Text agreed <u>ad referendum</u> . Developing countries would be allowed a five-year transition period; when doubt on valuation, customs may require proof from importer.
(c) Government procurement	Make code universal; clarify procedures.		Balanced package.	Text agreed <u>ad referendum</u> .
(d) Import licensing procedures	Reduce discretion in the issuance of licenses.	Develop export licensing procedures after Round.	Balanced package.	Text agreed <u>ad referendum</u> , subject to one reservation.
(e) Technical barriers to trade	Improve coverage and transparency of code.	Extent to which obligations apply to subgovernments.	Subgovernments compliance with GATT obligations.	Agreement near on text.
9. Safeguards (Article XIX)	Improve rules for the use of temporary import restrictions.	Replace recourse to quantitative restrictions by price-based measures; reformulate conditions to bring grey-area measures under GATT; nondiscriminatory or selective measures.	Market access; textiles and clothing; dispute settlement.	Draft negotiating text in place; permits measures, based on domestic finding of injury, for 5 to 8 years; grey areas removed in 3 to 4 years; EC seeks to solve selectivity issue through "modulated quotas," which retain quantitative and selective aspects.

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main Goals</u>	<u>Main Remaining Issues 1/</u>	<u>Negotiation Interlinkages</u>	<u>Current Status 1/</u>
10. Subsidies and countervailing measures	Restrain use of all subsidies and produce clear rules on countervailing.	Should there be outright prohibition of subsidies; how defined?	Agriculture; antidumping; balanced package.	Draft negotiating text in place; still basic disagreement on prohibition issue.
11. Trade-related aspects of intellectual property rights, including trade in counterfeit goods (TRIPS)	Develop or adapt rules to protect intellectual property rights (IPRs); establish disciplines on trade in counterfeit goods.	(i) Whether enforcement of IPRs should be under GATT? (ii) Patent rights on technology transfers, e.g., for pharmaceuticals. (iii) Harmonization of patent laws, e.g., U.S. law based on "first to invent," others on "first to file."	Agriculture	Agreement near on text. Enforcement issue left to end of Round.
12. Trade-related investment measures (TRIMs) 2/	Elaborate disciplines to avoid adverse trade effects.	(i) Should there be outright prohibitions; how defined? (ii) Whether disciplines should apply to directly imposed TRIMs, or also to indirect ones; such as incentive management, e.g., subsidies, taxes.	Market access; subsidies.	Negotiations are under way; agreement on hold for tactical reasons.

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
13. Dispute settlement	Strengthen dispute settlement mechanism.	(i) Shorten delays in adoption and implementation of panel reports. (ii) Commitment not to resort to unilateral measures not consistent with GATT.	Agriculture; other rule areas, balanced package.	Agreement near on text; would bring greater automaticity. Agreement not to resort to unilateral measures depends on strengthened rules and balanced package.
14. Functioning of the GATT System	Enhance GATT surveillance, improve overall effectiveness of GATT, and increase its contribution to coherence in economic policymaking.	(i) GATT management structure. (ii) Strengthened Secretariat. (iii) Declaration on policy coherence.	Balanced package.	Draft decisions exist to: confirm establishment of TPRM; improve notification of trade measures to GATT, encourage greater transparency on trade policies; confirm that ministerial level meetings at least every two years; recommend that Director-General of GATT meet with heads of Bretton Woods Institutions on increased GATT/Fund/Bank cooperation. Issues related to GATT management and Secretariat left to end of or after Round. Coherence at end of Round.

Uruguay Round--Structure and Summary of the Status of the Negotiations (continued)

<u>Group</u>	<u>Main goals</u>	<u>Main Remaining Issues</u> 1/	<u>Negotiation Interlinkages</u>	<u>Current Status</u> 1/
15. Group of Negotiations on Services	Bring about liberalization and establish multilateral rules and disciplines.	<p>(i) Coverage: some participants seek to exclude sectors or limit access significantly (e.g., civil aviation, maritime, telecommunications, audio-visual).</p> <p>(ii) Unconditional MFN contingent on sufficiency of liberalization.</p> <p>(iii) Degree of up-front liberalization: those with open systems require substantial up-front commitments, others would freeze current access and negotiate liberalization after the Round.</p> <p>(iv) Formulate safeguard provisions, incl. on measures for balance of payments need.</p> <p>(v) Cross retaliation in disputes--sector specific retaliation or across sectors and/or in goods.</p>	Market access; rules.	<p>Basic negotiating text exists. Initial liberalization offers being examined.</p> <p>On coverage, most agree that sectoral qualifications should not grant unlimited (in time or scope) waivers.</p> <p>On escape clause for balance of payments reasons, most developing countries would transfer GATT language; industrial countries want tighter provisions.</p>

Uruguay Round--Structure and Summary of the Status of the Negotiations (concluded)

1. In the absence of additional comments, each reference to an agreed text indicates that the main goals have been achieved.
2. With full reciprocity from its major trading partners, the United States would reduce tariffs to zero or very low rates on some 2,000 tariff lines in the areas of beer, certain electronic products, nonferrous metals, construction equipment, pharmaceutical and some chemicals, paper, wood products, fish and steel. The approach touches sensitive sectors for some countries, e.g., fish for the EC and Nordic countries.
3. The measures include variable levies, quantitative restrictions (including voluntary export restraints (VERs), nonsautomatic licensing and restraints under the MFA), price control measures, customs clearance procedures and health and sanitary regulations.
4. The negotiations cover fisheries, forestry and non-ferrous metals, as well as other products that participants agree to negotiate on a bilateral basis; thus, in the latter case, Australia has discussed with the EC a possible lowering of EC coal subsidies, with no reported outcome to date.
5. The product categories covered by the negotiations are, tropical beverages (coffee, cocoa, and tea); tropical spices, flowers and plants; oilseeds, vegetable oils and oilcakes; tobacco, rice and roots; tropical fruits and nuts; tropical woods and rubber; and jute and hard fibre.
6. As identified by some countries, TRIMs include local content rules, domestic sales rules, export performance requirements and its variants, trade balancing rules, and exchange restrictions.